AR17

NOVA

NOTICE OF ANNUAL MEETING

NOTICE is hereby given that the Annual Meeting of NOVA Corporation of Alberta (the "Corporation") will be held at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta on Tuesday, April 26, 1988 at 10:30 o'clock in the forenoon, Calgary time, for the following purposes, namely:

1. to receive the financial statements of the Corporation for the year ended December 31, 1987 and the reports of the Directors and the Auditors;
2. to elect certain Directors as provided in the NOVA Corporation of Alberta Act;
3. to consider and approve the Corporation's Employee Savings Plan and Employee Stock Option Plan;
4. to appoint Clarkson Gordon as the Auditors; and
5. to transact such other business as may properly be brought before the Meeting.

The close of business on March 14, 1988 is the record date for the determination of holders of Common Shares entitled to receive notice of, and to attend and vote at, the Annual Meeting.

By Order of the Board of Directors

RICHARD C. MILNER
Vice President, Treasurer and
Corporate Secretary

Calgary, Alberta
March 3, 1988

TO: Holders of Common Shares

If you are unable to attend in person, please complete and sign the enclosed form of proxy and forward it in the enclosed envelope to the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9, to reach that address no later than 5:00 o'clock in the afternoon, Calgary time, on Monday, April 25, 1988.

NOVA

INFORMATION CIRCULAR

GENERAL

This Information Circular is furnished in connection with the solicitation of proxies by the management of NOVA Corporation of Alberta (the "Corporation") for use at the Annual Meeting to be held on Tuesday, April 26, 1988 at 10:30 o'clock in the forenoon, Calgary time, at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta and at any adjournment thereof. Enclosed is a form of proxy for use at the Annual Meeting. A copy of the Annual Report and Financial Statements of the Corporation for the fiscal year ended December 31, 1987 to be presented to the Annual Meeting, is also enclosed.

Pursuant to the By-laws of the Corporation, instruments of proxy must be received by the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9 no later than 5:00 o'clock in the afternoon, Calgary time, on Monday, April 25, 1988.

REVOCABILITY OF PROXY

An instrument of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Annual Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing and deposited either at the head office of the Corporation, 801 Seventh Avenue S.W., Calgary, Alberta T2P 2N6 at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of such Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING THE SOLICITATION

The solicitation is made on behalf of the management of the Corporation and the costs thereof will be borne by the Corporation. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited by personal interviews, telephone or telegraph, by directors, officers and employees of the Corporation.

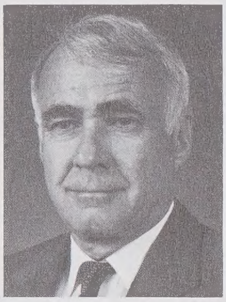
COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

At the date of this Information Circular, the Corporation has outstanding 211,964,431 Common Shares. Each Common Share confers upon the holder the right to one vote for the purpose of electing twelve Directors and of voting on any matters that may properly be brought before the Annual Meeting except that the NOVA Corporation of Alberta Act provides that no person alone or in concert with others may vote more than 15% of the outstanding voting shares. The close of business on March 14, 1988 is the record date for the determination of holders of Common Shares who are entitled to notice of, and to attend and vote at, the Annual Meeting. Any transferee or person acquiring Common Shares after such date may on proof of ownership of Common Shares, demand not later than 10 days before the Annual Meeting that his name be included in the list of persons entitled to attend and vote at the Annual Meeting. At the date of this Information Circular, no person or company, to the knowledge of the Directors or senior officers of the Corporation, beneficially owns, directly or indirectly, Common Shares carrying more than 10% of the voting rights attached to all Common Shares of the Corporation.

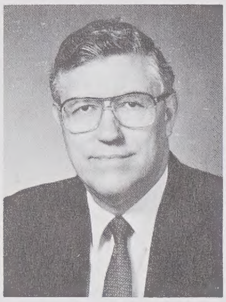
ELECTION OF DIRECTORS

The NOVA Corporation of Alberta Act provides for a Board of Directors consisting of a minimum of fifteen Directors and a maximum of twenty Directors. The number of Directors presently in office is fifteen, including those appointed by the Lieutenant Governor in Council. The information given herein with respect to each of the Directors is based upon information furnished to the Corporation by such Director.

In accordance with the NOVA Corporation of Alberta Act, the Board of Directors has determined that twelve Directors are to be elected at the Annual Meeting by the holders of Common Shares who will hold office until the next Annual Meeting or until their successors are elected or appointed. Each person proposed to be nominated for election by the holders of Common Shares is set forth immediately below and is currently a Director of the Corporation. Proxies in favour of the persons named in the accompanying form of proxy will be voted in favour of the election as Directors of the twelve persons as set forth below. The management does not contemplate that any of the nominees will be unable to serve as a Director but, if that should occur for any reason prior to the Annual Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. The number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each Director is as follows: S. Robert Blair, 165,100; James H. Butler, 20,671; R. Harold Carlyle, 500; Arthur J.E. Child, 20,000; Ronald B. Coleman, 1,000; Harley N. Hotchkiss, 18,000; William A. Howard, 7,814; Peter L.P. Macdonnell, 1,500; Fred A. McKinnon, 5,390; H.J. Sanders Pearson, 9,226; Robert L. Pierce, 24,401; William G. Wilson, 68,704.



** **S. Robert Blair** served initially as a non-management Director of the Corporation during the 1960's, then entered full-time management of the Corporation in December, 1969. He is Chairman and Chief Executive Officer of the Corporation and resides in the City of Calgary.

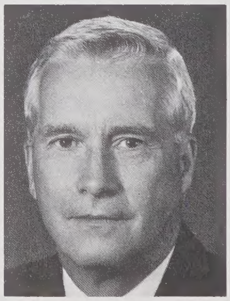


James H. Butler has been a Director of the Corporation since January 22, 1988. He is an Executive Vice President of the Corporation and resides in the City of Calgary. Prior to April, 1986 he was Vice President, International Trade, Petrochemical Division of Mobil Oil Company and prior to January, 1986 he was Vice President, Business Development and Joint Interests of Mobil Oil Company.

** **R. Harold Carlyle** has been a Director of the Corporation since May 1, 1986. He resides in the City of Calgary and is retired from Gulf Canada Resources Inc. Prior to November 30, 1985 he was President of Gulf Canada Resources Inc. and prior to September 1, 1984 he was Senior Vice President of Gulf Canada Resources Inc.

Arthur J.E. Child has been a Director of the Corporation since July 17, 1972. He resides in the City of Calgary and is the Chairman and Chief Executive Officer of Burns Foods Limited, a company engaged in food processing.

Ronald B. Coleman has been a Director of the Corporation since June 18, 1987. He resides in the City of Calgary and is President of R.B. Coleman Consulting Co. Ltd., a company engaged in oil and gas consulting. He also serves on the Boards of Cavalier Energy Ltd., Domequity Growth & Calgary Ltd., The Maritime Life Assurance Company, Nova Scotia Resources Ltd. and Western Resources Minerals Limited.

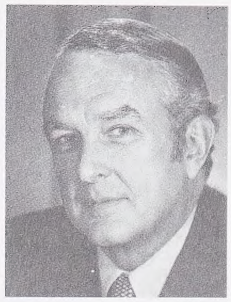


* **Harley N. Hotchkiss** has been a Director of the Corporation since May 11, 1979. He resides in the City of Calgary and is President of Harman Resources Ltd., and other private companies investing in oil and gas, real estate and agriculture. He also serves on the Boards of Conwest Exploration Company Limited and Calgary Flames Hockey Club Ltd.

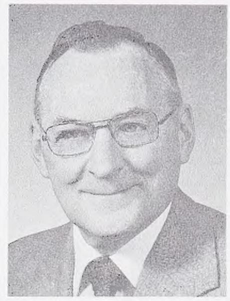
* Member of the Audit Committee.

** Member of the Management Resources and Compensation Committee.

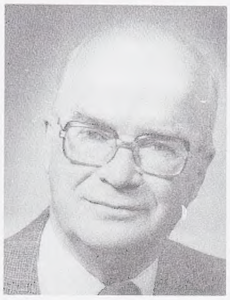
** **William A. Howard** has been a Director of the Corporation since May 13, 1977. He is a senior partner in the law firm of Howard, Mackie, and resides in the City of Calgary. He also serves on the Boards of Bow Valley Industries Ltd., The SNC Group Inc., Ranchmen's Resources Ltd. and Trilogy Resource Corporation.



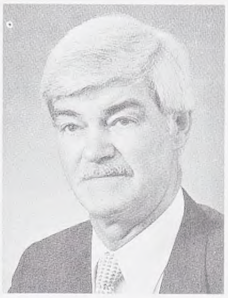
* **Peter L.P. Macdonnell** has been a Director of the Corporation since July 17, 1972. He is a partner in the law firm of Milner & Steer, and resides in the City of Edmonton. He also serves on the Boards of Alberta Energy Company Ltd., CAE Industries Ltd., Echo Bay Mines Ltd., Vencap Equities Alberta Ltd. and a Canadian chartered bank.



* **Fred A. McKinnon** has been a Director of the Corporation since January 10, 1975. He is retired from BP Canada Inc., and resides in the City of Calgary. He also serves on the Boards of Fluor Canada Ltd., Prairie Oil Royalties Company Ltd., Novalta Resources Ltd. and Deb Explorations Ltd.



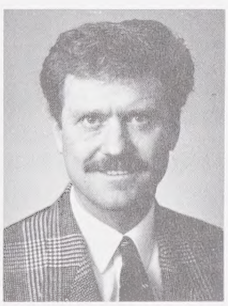
** **H.J. Sanders Pearson** is Vice Chairman of the Board of the Corporation. He has been a Director of the Corporation since July 17, 1972. He resides in the City of Edmonton and is Chairman of Century Sales & Service Limited, a company engaged in the distribution of industrial tools and fasteners. He also serves on the Boards of Mutual Life Assurance Co. of Canada, TransAlta Utilities Corporation, Prudential Steel Ltd., Novacor Chemicals Ltd., The Alberta Gas Ethylene Company Ltd. and Energy Holding S.p.A.



Robert L. Pierce is President of the Corporation. He has been a Director of the Corporation since May 13, 1977. He resides in the City of Calgary. He also serves on the Board of a Canadian chartered bank.

William G. Wilson has been a Director of the Corporation since January 22, 1988. He is Executive Vice President and Chief Financial Officer of the Corporation and resides in the City of Calgary. Prior to December, 1986 he was President of Cominco Ltd.

Four Directors are appointed by the Lieutenant Governor in Council of Alberta. John R. McCaig, one of the Directors appointed by the Lieutenant Governor in Council, resigned on February 10, 1988. The Directors presently in office who have been appointed by the Lieutenant Governor in Council are set forth immediately below. Each such Director has held his present principal occupation or executive position with the same or associated firms for the past five years. The term of appointment of Daryl K. Seaman will expire at the termination of the Annual Meeting in 1988, and the Corporation expects to receive information from the Lieutenant Governor in Council as to that position and the remaining vacancy before that date. The terms of appointment of William H. Comrie and J. Joseph Healy will expire at the termination of the Annual Meeting in 1989 and 1990, respectively. The number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each Director is as follows: William H. Comrie, 2,000; J. Joseph Healy, 1,200; Daryl K. Seaman, 102,361.



** **William H. Comrie** has been a Director of the Corporation since May 1, 1986. He resides in the City of Edmonton and is Chairman of The Brick, and Chief Executive Officer of The Brick Warehouse Corporation, a company engaged in the marketing of retail furnishings. He also serves on the Board of the Edmonton Eskimos Football Club.

J. Joseph Healy has been a Director of the Corporation since April 19, 1977. He resides in the City of Edmonton and is the President of Healy Motors Limited, a company engaged in transportation. He also serves on the Board of NovAtel Communications Ltd.

Daryl K. Seaman has been a Director of the Corporation since April 9, 1973. He resides in the City of Calgary and is Chairman and Chief Executive Officer of Bow Valley Industries Ltd., a company engaged in natural resource services, exploration and development. He also serves on the Boards of Vencap Equities Alberta Ltd., Pan-Alberta Gas Ltd., and BioTechnica International of Canada, Inc.

* Member of the Audit Committee.
** Member of the Management Resources and Compensation Committee.

STATEMENT OF EXECUTIVE COMPENSATION

(a) For the purposes of this Statement, "executive officer" of the Corporation means the chairman of the board of directors, the president, any vice president in charge of a principal business unit such as sales, finance or production and any officer of the Corporation or a subsidiary who performs a policy-making function in respect of the Corporation whether or not such officer is also a director of the Corporation or the subsidiary.

(b) CASH

The aggregate cash compensation paid by the Corporation and its subsidiaries to the seven executive officers of the Corporation for services rendered during 1987 (including salaries, fees, directors' fees but excluding bonuses which are described below) was $2,011,667.

(c) PLANS

(i) Bonus Plan

Bonuses were paid in 1988 in respect of 1987 under an informal plan or arrangement whereby management recommends to the Management Resources and Compensation Committee (the "Committee") of the Board of Directors of the Corporation (the "Board") the awarding of bonuses on an individual basis for the prior fiscal year. The Committee considers the recommendations of management and makes recommendations to the Board and bonuses are paid based on the Board's decision. The criteria used for the determination of the amount of any bonus are (a) the performance of the appropriate division or subsidiary of the Corporation, (b) the bonus practice in competitive companies, and (c) the individual executive, managerial, professional or administrative achievement for the Corporation made by each individual. During 1987 the sum of $45,000 was paid to one executive officer by way of deferred bonus in respect to services rendered during the calendar year 1985 and by way of bonus in respect to services rendered during the calendar year 1986. Total awards made by the Corporation and its subsidiaries for services rendered during the three-year period 1985 to 1987 inclusive are as follows: (a) Mr. Blair, $150,000, Mr. Pierce, $50,000, Mr. Butler, $90,000, Mr. Wilson, $80,000, and Mr. Simpson, $45,000; (b) all directors and executive officers as a group, $545,000; and (c) all employees, $2,364,674. In 1988 the sum of $500,000 was paid to seven executive officers by way of bonus in respect to services rendered during the calendar year 1987. Directors who are not full-time employees do not receive bonuses.

(ii) Pension Plan

The Corporation's pension plan (the "Pension Plan") is a non-contributory defined benefit pension plan for all employees, including executive officers, after one year of continuous employment. Directors who are not also employees or executive officers of the Corporation are not eligible to participate in the Pension Plan. The Pension Plan provides a benefit based on the average of the five highest years' annual base salary. Pension Plan benefits are calculated as follows:

(i) 1.4% of the highest 5 years' average salary up to the Canada Pension Plan Yearly Maximum Pensionable Earnings ceiling; and

(ii) 2% of the highest 5 years' average salary above this ceiling.

The aggregate value of (i) and (ii) is multiplied by years of credited service.

Pension Plan benefits are paid by an independent trustee on a monthly basis directly to the annuitant. Such benefits are exclusive of amounts payable under the Canada Pension Plan.

Unreduced retirement benefits under the Pension Plan are available after attainment of age 62; partial actuarial reductions apply otherwise. However, Pension Plan benefits are subject to Revenue Canada maximum pension regulations which have the effect of limiting annual benefits for persons earning more than $95,000 per year to $1,715 per year of credited service. The Pension Plan benefits of all executive officers are affected by these maximum pension regulations. The following table illustrates the operation of the Pension Plan in relation to executive officers as a result of the maximum pension regulations:

	Years of Service					
	10	15	20	25	30	35
Annual pension	$17,150	$25,725	$34,300	$42,875	$51,450	$60,000

Pension Plan benefits are paid in the form of a lifetime pension which, in the normal form, continues at a rate of 50% to a surviving spouse upon the death of the pensioner. If the pensioner does not have a spouse at the time of retirement, the benefits are paid as a lifetime pension, guaranteed for 5 years. Pension Plan benefits are fully vested after 5 years of continuous employment with the Corporation.

For the following executive officers, the years of credited service in the Pension Plan to December 31, 1987 are: Mr. Blair, 18.1 years; Mr. Pierce, 9.5 years; Mr. Butler, 1.7 years; Mr. Wilson, 1.0 years and Mr. Simpson, 16.5 years.

The Corporation contemplates entering into pension agreements with certain officers, including certain executive officers. These agreements would provide for supplementary pension payments, based on the earned pension under the Pension Plan, which supplementary payments would be above those pension payments allowed by the Department of National Revenue regulations applicable to registered pension plans. The aggregate pension payments resulting from such agreements and the pension payments payable under the Pension Plan would be generally equivalent to the benefit which is earned under the Pension Plan without such regulatory restrictions.

A supplemental pension arrangement applies to Mr. Pierce. Upon retirement Mr. Pierce will receive total pension benefits equal to a percentage of his average annual salary as President of the Corporation, including benefits payable under the Pension Plan but excluding benefits payable under the Canada Pension Plan. The estimated pension benefits pursuant to the supplemental pension arrangement will be $130,546 per year.

(iii) Long Term Disability Plan

The Corporation provides executive officers with long term disability plan coverage during the second and subsequent years of a disability which prevents such executive officers from carrying out their duties. This plan supplements the coverage provided under the Corporation's long term disability plan for all employees which provides 70% of an employee's salary up to $6,000 per month during a disability.

The benefit coverage provided under the supplementary plan is:

70% of salary on the first $100,000;
50% of salary on the second $100,000;
30% of salary on the third $100,000; and,
10% of salary on the balance of the executive officer's base salary.

No benefits were paid under this Plan in 1985, 1986 or 1987.

(iv) Savings Plan and Stock Option Plan

The Corporation also has an employee savings plan (the "Savings Plan") and employee incentive stock option plan (the "Stock Option Plan") which are described below under the heading "Approval of Employee Plans".

(d) COMPENSATION OF DIRECTORS

As at January 1, 1988, there is paid to each Director who is not a full-time employee of the Corporation, a retainer fee of $800 per month and an attendance fee of $600 for each meeting attended. Directors who are full-time employees of the Corporation receive no directors fees. Directors who are members of the Management Resources and Compensation Committee of the Board and the Audit Committee of the Board and who are not full-time employees are paid $600 for each committee meeting attended except in the case of the chairman of each such Committee, to each of whom a fee of $1,200 (including the $600 attendance fee) is paid for each meeting attended.

(e) OTHER COMPENSATION

The aggregate value of all other non-cash compensation paid in 1987 to executive officers does not exceed the lesser of $10,000 times the number of executive officers or 10% of the aggregate cash compensation of the executive officers as a group.

APPROVAL OF EMPLOYEE PLANS

The Savings Plan and Stock Option Plan have been in existence since May 1, 1972 and September 10, 1982, respectively. The Corporation is considering listing the Common Shares on the New York Stock Exchange ("NYSE") and registering the Common Shares with the United States Securities and Exchange Commission ("SEC"). The rules of the NYSE and certain provisions of United States securities laws require or make it advisable to obtain shareholder approval of stock option plans and other plans under which directors and executive officers may obtain stock of the issuer. In order to be in compliance with those rules and provisions if listing with the NYSE and registration with the SEC occur, the Corporation is seeking shareholder approval of the Savings Plan and the Stock Option Plan. The texts of both plans are attached as Exhibits A and B, respectively, to this Information Circular. The following summary of the principal features of each Plan is qualified by reference to such texts.

(a) SAVINGS PLAN

The Corporation provides a voluntary savings plan for all permanent employees as a vehicle for long term savings funded by employee contributions and by the Corporation after one year of continuous employment. The contribution of the Corporation to employees' accounts are made monthly and are immediately vested. Plan assets are held and administered by a trustee in some or all of three investment vehicles at the Plan member's option, including Common Shares.

Contributions of the Corporation to employees' accounts are based on the following service-related schedule:

(i) Employees may contribute from 1% to 5% of base salary as regular contributions and up to a further 5% as additional contributions.

(ii) During the second and third years of employment the Corporation matches 50% of employees' regular contributions.

(iii) During the fourth and fifth years of employment the Corporation matches 75% of employees' regular contributions.

(iv) After five years of employment the Corporation matches 100% of employees' regular contributions.

(v) After 10 years of employment the Corporation matches 100% of employees' contributions to a maximum of 7% of base salary. This Plan provision does not apply to employees whose base salaries are $125,000 and above.

Total corporate contributions under the Savings Plan for the period 1985 to 1987 were: (a) Mr. Blair, $40,219, Mr. Pierce, $51,189, Mr. Butler, $4,271, Mr. Wilson, nil, and Mr. Simpson, $23,116; (b) all directors and executive officers as a group, $155,771; and (c) all employees, $13,094,602. Messrs. Blair, Pierce, Butler and Simpson joined the Savings Plan in 1986, 1983, 1987 and 1972, respectively. Mr. Wilson joined the Savings Plan on January 1, 1988. Directors who are not full-time employees are not eligible to participate in the Savings Plan.

(b) STOCK OPTION PLAN

The Stock Option Plan provides that the Board may grant to directors, officers and employees of the Corporation or its subsidiaries, options to purchase from treasury Common Shares of the Corporation. The number of Common Shares authorized for issuance under the Stock Option Plan is 10,500,000. At December 31, 1987 and at February 29, 1988 there were 6,644,225 and 6,540,275 Common Shares respectively, allocated for the exercise of then outstanding options. Each of the options granted during 1987 was under the Stock Option Plan and is for a term of 7 years from the date of the grant. In each of the 3

succeeding 12 months subsequent to the granting of an option the holder of an option may exercise the option as to 25% of the aggregate number of shares under such option on a cumulative basis and thereafter the option may be exercised until the expiry date of the option as to the balance of the shares granted under the option.

The criteria used for granting options to executive officers consist of (a) the relative level of success or achievement of the executive officer, (b) the level of responsibility given to a newly appointed executive officer, (c) whether or not the executive officer has been given additional responsibilities, and (d) the number of shares under options then held by an executive officer. In all cases the granting of options is made by the Board based upon the recommendations of the Management Resources and Compensation Committee of the Board. When options are exercised the payment for the shares purchased thereunder must be made contemporaneously with the exercise of the option. The options are granted at the closing market price on The Toronto Stock Exchange on the date the grant is made by the Board.

If any options are forfeited prior to exercise, the Common Shares represented by such forfeited options become available for purposes of the Stock Option Plan. The Stock Option Plan provides for an adjustment in the number of optioned Common Shares subject to outstanding options thereunder as well as the number of optioned Common Shares available for grant under the Stock Option Plan to reflect any stock split, stock dividend or similar capital adjustment of or by the Corporation at the determination of the Board of Directors of the Corporation, or to reflect any reorganization of the Corporation at the determination of the Board.

No options have been granted to, or exercised by, any Director of the Corporation who is not a full-time employee of the Corporation.

In connection with options granted to executive officers during the 1987 financial year, the following table summarizes the date of granting, the expiry date, the number of Common Shares covered by options granted and the exercise price. The exercise price is the market price at the date of grant as referred to above.

Date	Date of Expiry	Number of Shares	Exercise Price
April 10, 1987	April 9, 1994	1,575,000	$8.75

During the 1987 financial year, the number of options exercised by executive officers was 63,000.

During the month of trading prior to the grants on April 10, 1987, the Common Shares were trading from a low of $8.25 to a high of $9.375 on The Toronto Stock Exchange. As of February 29, 1988, the Common Shares closed at $10.25 on The Toronto Stock Exchange.

The following table shows for those listed executive officers, for all executive officers as a group and for all employees during the period January 1, 1985 through December 31, 1987, inclusive: (a) the number of shares covered by options granted, (b) the average option price per share, (c) the net value realized upon exercise of the options and (d) the number of shares sold during that period:

	January 1, 1985 - December 31, 1987			
Name	No. of Options Granted	Average Option Price per Share*	Net Value Realized Upon Exercise of Options**	Shares Sold***
S.R. Blair	450,000	$8.75	$ Nil	Nil
R.L. Pierce	225,000	8.75	Nil	Nil
J.H. Butler	600,000	7.45	Nil	Nil
W.G. Wilson	450,000	7.44	Nil	Nil
B.W. Simpson	100,000	8.75	130,000	40,000
All executive officers as a group	2,062,500	8.01	177,125	63,000
All employees	2,521,425	8.65	2,997,099	1,500,652

Notes:

* Weighted average.

** Represents the difference between the market value on the dates of exercise and related option prices.

*** Sales by individuals who exercised options during the period January 1, 1985 to December 31, 1987.

The net value realized in the fiscal year 1987 on the sale of securities acquired pursuant to the exercise of options issued by the Corporation under the Stock Option Plan by executive officers was $177,125. As at the end of fiscal year 1987, the number of unexercised stock options held by executive officers was 1,974,375.

The following is a summary of Canadian federal income tax consequences to optionees. The Canadian income tax consequences pursuant to the Income Tax Act (Canada) of the granting and exercising of an option under the 1982 Plan and subsequent disposition of the shares will be as follows:

(i) There will be no income inclusion to the optionee when the option is granted.

(ii) Upon the exercise of the option by the optionee there will be an income inclusion equal to the difference between the fair market value of the Common Shares at the time they are exercised and the option price.

(iii) Provided certain conditions are met at the time the option is granted the optionee may be entitled to a deduction in the year the option is exercised equal to ½ of the amount included in his income as a result of the exercise of the option. Federal Government proposals for tax reform would reduce the amount of this deduction to ⅓ effective January 1, 1988.

(iv) The amount included in the optionee's income upon the exercise of the option is added to the adjusted cost base of the Common Shares acquired. Assuming the optionee is not a trader or dealer in Common Shares, upon the subsequent disposition of the Common Shares he will realize a capital gain equal to the difference between the proceeds of disposition of the Common Shares and the adjusted cost base of the Common Shares.

The following summary is intended to reflect the United States Federal income tax consequences, under the current provisions of the Internal Revenue Code of 1986, as amended (the "Code") and the Income Tax Regulations thereunder, of the Stock Option Plan to participants who are subject to United States Federal income tax, and to the Corporation. This summary does not deal with state, local or foreign tax considerations.

The Stock Option Plan is not qualified under section 401(a) of the Code. Options granted under the Stock Option Plan are intended to be "nonqualified options" subject to taxation under section 83 of the Code, and are intended not to qualify for the special tax treatment accorded "incentive stock options" under section 422A of the Code.

Under applicable provisions of the Code, a person granted a stock option under the Stock Option Plan will not recognize taxable income at the time such option is granted. Except as otherwise described below, such a person will recognize ordinary income at the time shares are acquired upon the exercise of an option in an amount equal to the excess of the aggregate fair market value of such shares on the date of exercise over the aggregate option price of such shares. Upon disposition of the shares so acquired, any amount received in excess of the fair market value of the shares on the date of exercise will be treated as long-term or short-term capital gain, depending upon the optionee's holding period for the shares. If the amount received upon disposition of the shares is less than their fair market value on the date of exercise, the difference will be treated as long-term or short-term capital loss, depending upon the optionee's holding period.

A person whose shares acquired pursuant to the exercise of a stock option are subject to the short-swing profit recapture restrictions of Section 16(b) of the Securities and Exchange Act of 1934 (an "Insider") generally will not recognize gain until (or have his holding period start until just after) a date (the "Lapse Date") which is the earlier of the expiration of six months after the acquisition of such shares or such time as such restrictions lapse. If on the Lapse Date the fair market value of such shares is greater than the option price paid upon exercise, such a person will recognize ordinary income on the Lapse Date in an amount equal to such excess. Upon disposition of such shares, any amount received in excess of the fair market value of the shares on the Lapse Date will be treated as long-term or short-term capital gain, depending upon the optionee's holding period following such date. If on the Lapse Date the fair market value of option shares is less than the option price paid upon exercise, such person will not recognize any loss at that time; upon disposition of such shares, any amount received in excess of the option price of the shares will be treated as long-term or short-term capital gain as described above, and any deficiency in the amount

received below the option price will be treated as long-term or short-term capital loss, in each case depending upon the holding period of the optionee in the shares.

An Insider is entitled, in lieu of the tax treatment described in the preceding paragraph, to elect under section 83(b) of the Code to recognize income at the time such shares are issued upon execise of the option, notwithstanding the continued existence of such restrictions. Such election must be made within 30 days after the option is exercised. Such a person will be taxed in accordance with the rules applicable to non-Insiders, as described above.

In all of the above cases, the Corporation (or, where applicable, the subsidiary of the Corporation that employs the optionee) will generally be entitled to a deduction for United States Federal income tax purposes at the time and in the amount that the optionee recognizes ordinary income.

SELECTION OF AUDITORS

Upon the recommendation of the Audit Committee of the Board of Directors of the Corporation, the Board has historically appointed annually a firm of independent public accountants to serve as auditors, which appointment was submitted for ratification by the shareholders at the Annual Meeting. Following the continuance of the Corporation under The Business Corporations Act (Alberta) on September 1, 1987 the right to appoint auditors became vested solely in the shareholders. The Board recommends that Clarkson Gordon, Chartered Accountants be appointed to act as auditors for the current year. This firm has served as auditors of the Corporation since 1956. Representatives of Clarkson Gordon are expected to be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

By Order of the Board of Directors

RICHARD C. MILNER
Vice President, Treasurer and
Corporate Secretary

Calgary, Alberta
March 3, 1988

EXHIBIT A

EMPLOYEE SAVINGS PLAN

SECTION I DEFINITIONS In this plan (including this Section I) unless there is something in the context inconsistent therewith, the following definitions shall have the following meanings respectively:

A. "**Basic Contributions**" — shall have the meaning attributed thereto in Section IV.

B. "**Basic Earnings**" — means at a point in time the basic monthly salary received by an Employee from the Corporation, but does not include shift differential, overtime pay, the value of any benefits, performance bonuses or any other non-regularly occurring compensation.

C. "**Board of Directors**" — means the Board of Directors of NOVA Corporation of Alberta.

D. "**Committee**" — means the Savings Plan Committee appointed by the Corporation, pursuant to Section XII hereof.

E. "**Continuous Service**" — means the continuous period of time of an Employee's service while employed by the Corporation on a permanent full-time basis or a permanent part-time basis.

F. "**Corporation**" — means NOVA Corporation of Alberta and includes such associated, affiliated, and subsidiary companies as may be designated from time to time by resolution of the Board of Directors, a certified copy of which has been filed with the Trustee.

G. "**Death Valuation Date**" — means in the case of the death of a Member, the last day of the month in which such death occurs.

H. "**Effective Date**" — means May 1, 1972.

I. "**Employee**" — means any person employed on a permanent continuous full-time basis or on a permanent continuous part-time basis by the Corporation or any person approved for benefit payments under the Long Term Disability Plan of the Corporation.

J. "**Executive Officer**" — means the chairman of the Board of Directors, the president, any vice president in charge of a principal business unit such as sales, finance or production and any officer of the Corporation or a subsidiary who performs a policy-making function in respect of the Corporation whether or not such officer is also a director of the Corporation or the subsidiary.

K. "**GIC**" — means a Guaranteed Investment Certificate of a financial institution approved by the Committee.

L. "**Leave of Absence Without Pay**" — means a voluntary or involuntary leave of absence without pay and shall include but not be limited to maternity and adoption leave, disciplinary suspension or any approved personal leave from the Corporation.

M. "**Long Term Disability Plan**" — means that plan established by the Corporation to provide for partial salary continuance to a disabled employee.

N. "**Member**" — means any Employee who is registered under the Plan and in respect of whom a settlement in full satisfaction of all rights as defined in Section IV under the Plan has not been made.

O. "**Member's Account**" — means all cash, securities and other assets held by the Trustee for the benefit of the Member under the Plan which have been contributed by both the Corporation and the Member.

P. "**Non-Plant Employee**" — means an Employee who is not a Plant Employee.

Q. "**Notice**" — means a written notification submitted to the Corporation on the forms prescribed by the Corporation for each individual transaction.

R. "**NOVA Common Shares**" — means common shares in the capital stock of the Corporation as constituted at September 1, 1987 or as subsequently consolidated or subdivided and any other share resulting from redemption or change of such share or from amalgamation, consolidation or merger.

S. "**Other Events Valuation Date**" — means:

(a) in the case of any withdrawal of all or a portion of a Member's Account as referred to in Subsection 1 of Section XI hereof, or

(b) in the case of the withdrawal of the Total Value of a Member's Account as referred to in Subsection 6 of Section XI hereof, or

(c) in the case of the voluntary termination by a Member of his participation in the Plan as referred to in Subsection 1 of Section X hereof, or

(d) in the case of the change of allocation among investment categories within the Member's Account as referred to in Subsections 3 and 4 of Section VI hereof,

the later of the date that the Member's submitted Notice in respect of any such action is received by the Corporation or the date specified by the Member in such Notice.

T. "**Plan**" — means this Employee Savings Plan established by NOVA Corporation of Alberta and includes any amendments hereto.

U. "**Plant Employee**" — means an Employee who at the relevant time is employed by the Corporation in the Moore Plant in Ontario or in other operations of the Corporation as designated by the Corporation from time to time.

V. "**Plan Year**" — means (a) in respect of 1972 the period from May 1, 1972 to December 31, 1972, and (b) subsequent to December 31, 1972, a calendar year.

W. "**Pooled Equity Fund**" — means a fund wherein investment is made in a diversified portfolio of common shares of either or both of domestic and foreign corporations.

X. "**Termination/Retirement Valuation Date**" — means

(a) in the case of the retirement of a Member as referred to in Subsection 5 of Section XI, or

(b) in the case of termination of employment as referred to in Subsection 5 of Section XI,

the date which is the last day of Continuous Service of such Member, or such earlier date specified by the Member in his submitted Notice to the Corporation.

Y. "**Total Value**" — means the total value of the following assets held under the Plan calculated as of the date specified in the pertinent definitions hereof:

(a) The value of NOVA Common Shares, being the closing price on The Toronto Stock Exchange on such specified date or if such was not a day on which a closing price was available, on the next immediately preceding day on which such a closing price was available;

(b) GIC's based on the dollar amount;

(c) The value of the Pooled Equity Fund based on the closing price notified by the respective trust company on such specified date or if such was not a day on which a closing price was available, on the next immediately preceding day on which such a closing price was available;

(d) Other investments as specified by the Corporation — based on the value as established by the Trustee;

(e) Interest paid by the Trustee on contributions held pending investment instructions.

Z. "**Trust Agreement**" — means the agreement between the Corporation and the Trustee which provides for the establishment of the Trust Fund as may be amended from time to time pursuant to the terms thereof.

AA. "**Trustee**" — means a trust company appointed by the Board of Directors to act as custodian to the Trust Fund.

BB. "**Trust Fund**" — means Guaranteed Investment Certificates, NOVA Common Shares, Pooled Equity Fund and other investments and any interest held by the Trustee for the Members.

CC. "**this Plan, herein, hereof, hereunder**", and similar expressions refer to this Plan and not to any particular section or subsection, clause or subdivision or other portion hereof and includes any and every amendment hereof.

SECTION II GENERAL

1. The Plan has been voluntarily undertaken by the Corporation and shall not give or be deemed to give any Members a right to continuation of employment nor shall it interfere with the right of the Corporation to discharge any Member at any time.
2. Should any person entitled to receive any benefits hereunder be, in the judgment of the Corporation, physically or mentally incapable of personally receiving and giving a receipt for any distribution, the Corporation may instruct the Trustee to make distribution to such other person or persons which, in the judgment of the Corporation, shall then be maintaining or having custody of the assets or shall be legally entitled to receive such payment, and such distribution shall constitute a complete discharge of all liability with respect to any such benefit.
3. The Plan shall be governed, construed and administered in accordance with the laws of the Province of Alberta.
4. In this text words importing the singular meaning shall include the plural and vice versa, and words importing the masculine shall include the feminine and neuter genders.
5. The Committee may from time to time prescribe such forms or other notices or communications for use by the Corporation, by Members submitting a Notice to the Corporation and by prospective Members as the Committee may deem appropriate and may specify the information to be included in such forms, Notices or other communications to be given to the Corporation and the time within which such forms, Notices or communications shall be given to the Corporation. The Committee may waive any such requirement on such terms and conditions, if any, as the Committee may deem appropriate.
6. In the case of any withdrawal of all or a portion of a Member's Account the amount of such withdrawal shall be paid by the Corporation to the person or persons entitled thereto within such reasonable time after the submitted Notice or event which gave rise to such withdrawal as is required for the due processing of the payment thereof.
7. Any reference to a contribution to or withdrawal from the Plan based on a percentage of an amount shall require the relevant contribution or withdrawal to equal a percentage of such amount expressed as a whole number.

SECTION III ELIGIBILITY AND REGISTRATION

1. Any Employee who has completed at least one (1) complete year of Continuous Service is eligible to join the Plan.
2. To become a Member, an eligible Employee must register by submitting a Notice and authorize the deduction from his Basic Earnings as required under the Plan.
3. Participation in the Plan shall commence on the first day of the calendar month following receipt by the Corporation of such Notice.

SECTION IV CONTRIBUTIONS

A. Basic Contributions

1. Each Member shall be eligible to make Basic Contributions to the Plan as follows:
   - (a) A Plant Employee who has completed one (1) year of Continuous Service may for the duration of his membership in the Plan contribute not less than one (1%) percent and not more than five (5%) percent of his Basic Earnings.
   - (b) A Non-Plant Employee may contribute as follows:
     - (i) Upon completion of one (1) year of Continuous Service and continuing to the expiration of the tenth (10th) year of Continuous Service, such Member may contribute not less than one (1%) percent and not more than five (5%) percent of his Basic Earnings.

(ii) Upon completion of ten (10) years of Continuous Service, such Member may contribute not less than one (1%) percent and not more than seven (7%) percent of his Basic Earnings, except in the case of any Member as to whom the Compensation Committee of the Board of Directors has fixed the maximum contribution at five (5%) percent.

Basic Contributions shall be made by semi-monthly payroll deductions.

2. A Member of the Plan may increase or decrease his Basic Contributions and additional voluntary contributions subject to the limitations in Subsections A.1 above and C.2 and C.4 below, twice during any Plan Year, by submitting a Notice.

B. **Corporation Contributions**

1. Subject to the terms of the Plan and subject to the provisions hereinafter set out in this Subsection B, each Member shall be eligible for monthly contributions to the Plan from the Corporation based on the Member's Basic Contributions as follows:

(a) A Plant Employee who has completed one (1) year of Continuous Service shall receive for the duration of his membership in the Plan an amount equal to one half (½) of the Basic Contributions in each month.

(b) A Non-Plant Employee shall receive the following:

(i) Upon completion of one (1) year of Continuous Service and continuing to the expiration of the third (3rd) year of Continuous Service, such Member shall receive an amount equal to one half (½) of the Basic Contributions in each month.

(ii) During the period commencing at the expiration of the third (3rd) year of Continuous Service and continuing to the expiration of the fifth (5th) year of Continuous Service, such Member shall receive an amount equal to three quarters (¾) of the Basic Contributions in each month.

(iii) During the period of Continuous Service subsequent to the end of the fifth (5th) year of Continuous Service, such Member shall receive an amount equal to the Basic Contributions in each month.

C. **Additional Voluntary Contributions**

1. Each Member shall be eligible to contribute additional voluntary contributions to the Plan in addition to those set forth in Subsection A as follows:

(a) A Plant Employee who has completed one (1) year of Continuous Service may for the duration of his membership in the Plan contribute not less than one (1%) percent and not more than five (5%) percent of his Basic Earnings.

(b) A Non-Plant Employee may contribute as follows:

(i) Upon completion of one (1) year of Continuous Service and continuing to the expiration of the tenth (10th) year of Continuous Service, such Member may contribute not less than one (1%) percent and not more than five (5%) percent of his Basic Earnings.

(ii) Upon completion of ten (10) years of Continuous Service, such Member may contribute not less than one (1%) percent and not more than three (3%) percent of his Basic Earnings.

Additional voluntary contributions shall be made by semi-monthly payroll deductions.

2. A Member of the Plan may increase or decrease his additional voluntary contributions subject to the limitations in Subsections C.1 and C.2 above and C.4 below, by submitting a Notice.

3. There shall be no Corporation contributions in respect of any additional voluntary contributions.

4. (a) Any increase in contributions by a Member shall first be deemed to be an increase in Basic Contributions to the extent such contributions do not exceed the limit specified in Subsection A.1 and thereafter be deemed to be an increase in additional voluntary contributions.

(b) Any decrease in contributions by a Member shall first be deemed to be a decrease in additional voluntary contributions to the extent of such additional contributions and thereafter be deemed to be a decrease in Basic Contributions.

SECTION V MAINTENANCE OF MEMBER'S ACCOUNT

1. A Member's Account will be maintained for each Member which will record:

   (a) his contributions to the Plan;

   (b) the Corporation's contributions to the Plan on behalf of the Member; and

   (c) interest earnings, dividends, capital gains and capital losses as they accrue from time to time.

SECTION VI INVESTMENT PROVISIONS

1. All contributions made by the Members and the Corporation shall be deposited with the Trustee for investment as soon as is reasonable after such contributions are made. Interest paid by the Trustee on contributions held pending investment instructions will be allocated on the last day of each Plan Year to the Members of record on that date pro rata on the basis of each Member's share of the Total Value of the Plan on that date.

2. Trust Funds shall be invested only in one or more of the following categories:

   (a) NOVA Common Shares;

   (b) Pooled Equity Funds approved by the Committee;

   (c) Guaranteed Investment Certificates approved by the Committee; and

   (d) other investments as may from time to time be specified by the Committee.

3. Upon registration, each Member shall direct the allocation of the funds in his Member's Account to the various investment categories set out in Subsection 2 above. Such allocation shall remain in effect until a Notice from the Member as to a change in allocation is received by the Corporation in accordance with Subsection 4 below.

4. Twice during any Plan Year, and upon submitting a Notice, a Member may:

   (a) change the allocation amongst the investment categories within the Member's Account for past contributions to the maximum of the Total Value of the Member's Account on the applicable Other Events Valuation Date;

   (b) change the allocation amongst the investment categories within the Member's Account as to future contributions as of the applicable Other Events Valuation Date.

   Such allocation will remain in effect until submission of Notice from the Member specifying a change in allocation is received by the Corporation in the manner prescribed in this Subsection 4.

SECTION VII VESTING

1. A Member's Account in existence as of January 1, 1974, shall be vested and be deemed to have vested in the Member on January 1, 1974.

2. All contributions made by a Member and the Corporation on behalf of a Member to a Member's Account shall vest in the Member on the date upon which such contribution is made.

3. All interest earnings, dividends, capital gains and capital losses arising from contributions by the Corporation to a Member's Account shall vest in the Member in the same manner prescribed in Subsections 1 and 2 above.

SECTION VIII ASSIGNMENT

1. All monies payable to, or NOVA Common Shares transferable to, a Member or a beneficiary or any other person pursuant to the provisions of the Plan are for the provision of benefits to such Member, beneficiary or other person, are not capable of assignment or alienation and do not confer upon any Member, beneficiary or any other person, any right or interest in the monies or NOVA Common Shares which are capable of being assigned or otherwise alienated. Monies and NOVA Common Shares payable or transferable under the Plan shall not be assigned, attached, alienated, sold, transferred, pledged, anticipated or given as security, and to the extent permitted by law, shall not be subject to attachment, execution or seizure. Any transaction purporting to assign, attach, alienate, sell, transfer, pledge, encumber, charge, anticipate or give as security any monies or NOVA Common Shares payable or transferable under the Plan shall be void and of no force or affect.

SECTION IX SUSPENSION FROM THE PLAN

1. A Member may, by submitting a Notice, elect to suspend his contributions to the Plan for a period of not less than three (3) calendar months. A Member may then, by submitting a Notice, elect to resume his contributions on the first (1st) day of any month at least three (3) calendar months subsequent to the effective date of the suspension of contributions.

2. Any Member who takes a Leave of Absence Without Pay for a period of over thirty (30) days shall be suspended from the Plan for a period of not less than one (1) calendar month. Upon the Member's return to work, the Member may, by submitting a Notice, elect to resume his participation on the first (1st) day of any month following his return to work. Such suspension will be automatically processed by the Corporation.

3. Any Leave of Absence Without Pay less than thirty (30) days does not require suspension from the Plan.

4. If the Leave of Absence Without Pay commences in any month in which the Member is eligible to make contributions to the Plan, then both the Member's and the Corporation's contributions to the Plan in respect of that Member for that month shall be reduced in the proportion that the reduction in the Basic Earnings of the Member in the partial month bears to the Basic Earnings of the Member if the Member's employment had not been so interrupted.

5. After resuming participation in the Plan, a Member may not suspend again for at least twelve (12) calendar months from the date of re-instatement. Any Member wishing to suspend within the twelve (12) calendar months after the date of re-instatement, will be required to submit a Notice to terminate from the Plan for a minimum period of not less than twelve (12) calendar months. Such an Employee (who was formerly a Member) will be eligible to participate in the Plan by submitting a Notice as described in Section I on the first (1st) day of any month following the expiration of twelve (12) months of Continuous Service after the applicable Other Events Valuation Date.

6. The Corporation's contributions will also cease during any period of suspension.

SECTION X VOLUNTARY TERMINATION

1. A Member may terminate his participation in the Plan effective the first (1st) day of any calendar month by submitting a Notice of his intention to terminate. Upon such termination of membership, the Total Value of the assets in the Member's Account on the applicable Other Events Valuation Date shall be refunded to the Member. All withdrawals must be in the form of cash. However, if a Member's Account includes any NOVA Common Shares, the Member has the option of withdrawing such shares or a portion thereof in certificate form, subject to Section XI.2.

2. In order to provide sufficient cash to pay the amount requested in a Notice specifying a withdrawal of cash, it may be necessary to sell a portion or all of the NOVA Common Shares and or Pooled Equity Fund in the Member's Account as so designated in the Notice from the Member.

3. A former Member shall again be eligible for participation in the Plan as set out in Section III, after twelve (12) calendar months of Continuous Service following such termination.

SECTION XI WITHDRAWALS

1. A Member may, upon submitting a Notice, withdraw up to but not more than fifty (50%) percent of the Total Value of the assets in his Member's Account two (2) times per calendar year as at the applicable Other Events Valuation Date provided, however, that the minimum amount of such withdrawal shall be THREE HUNDRED ($300.00) DOLLARS. If any Member wishes to make a third withdrawal within the same calendar year, such Member may by submitting a Notice, withdraw the entire Total Value of the balance remaining in his Member's Account as at the applicable Other Events Valuation Date and the Member's participation in the Plan shall thereupon be terminated for a period of not less than the twelve (12) months next following the date of such third withdrawal. The former Member shall thereafter be eligible to participate in the Plan by submitting a Notice as described in Section I on the first (1st) day of any month following the expiration of twelve (12) months of Continuous Service from the applicable Other Events Valuation Date.
2. All withdrawals made by a Member who is an Executive Officer must be in the form of cash. However, for all other Members whose Member's Account includes any NOVA Common Shares, the Member has the option of withdrawing such shares or a portion thereof in certificate form.
3. In order to provide sufficient cash to pay the amount requested in a Notice specifying a withdrawal of cash, it may be necessary to sell a portion or all of the NOVA Common Shares and/or Pooled Equity Fund in the Member's Account as so designated in the Notice from the Member.
4. In the event of the death of a Member while in the Continuous Service of the Corporation, the Total Value of the Member's Account as at the Death Valuation Date or, if the Member's Account contained NOVA Common Shares, the shares in the number held in the Member's Account or a portion thereof (as specified by the beneficiary or if no beneficiary has been specified, by the estate of the Member) or the cash value as at the Death Valuation Date thereof shall be paid or delivered to the beneficiary or estate of the Member as previously designated by the Member.
5. When a Member retires from the employment of the Corporation in accordance with the terms of any retirement plan established by the Corporation, or when a Member is terminated from the employment of the Corporation, whether voluntarily or otherwise, the Total Value of his Member's Account as at the Termination/ Retirement Valuation Date shall be paid and delivered to him in cash or share certificates as set out in Subsection 2 of Section X upon the Member submitting a Notice thereof within such reasonable time after the retirement or termination as is required for processing.
6. After five (5) years of continuous participation in the Plan a Member may, by submitting a Notice, withdraw the Total Value of his Member's Account as at the applicable Other Events Valuation Date without the termination or suspension of participation in the Plan or without penalty provided that the Member has not thereby made more than two withdrawals in any Plan Year. Any subsequent withdrawals without penalty of the Total Value of the Member's Account may only occur by submitting a Notice, after a further five (5) years of continuous participation in the Plan have been completed since the last Total Value withdrawal without penalty, provided that the Member has not thereby made more than two withdrawals in any Plan Year.

SECTION XII THE COMMITTEE In order to provide for the orderly administration of the Plan, the Board of Directors will establish a committee of Corporation executives (herein referred to as the "Committee") to be structured in the manner and vested with such powers, authorities and discretions as described below:

1. **Structure**
   - (a) The Committee will have a Chairman who will be annually appointed by the Board of Directors.
   - (b) In addition to the Chairman, the Committee will consist of such persons being not more than eight (8) and not fewer than four (4) in number as are from time to time appointed by the Chief Executive Officer.
   - (c) A majority of members of the Committee from time to time shall constitute a quorum for the transaction of any business and no business shall be transacted by the Committee except at a meeting of members at which a quorum is present in person.
   - (d) The Committee shall appoint a person who may, but need not be, a member of the Committee, to be Secretary to the Committee who shall maintain minutes and records of all proceedings and transactions of the Committee.

(e) Except as limited herein or by the resolution of the Board of Directors, the Committee may regulate the procedures to be followed at its meetings.

2. **Powers, Authorities and Discretions**

(a) Subject always to the direction and authority of the Board of Directors, the Committee shall have responsibility for the proper and orderly administration of the Plan and of the Trust Fund constituted for the purposes of the Plan including but not limited to the following:

i) all investment decisions affecting the Trust Fund;

ii) determination of all questions of interpretation and application of the Plan and anything done or document or agreement written or entered into pursuant to the Plan.

(b) The Committee shall cause the accounts of the Plan and Trust Fund to be audited annually by the auditor appointed in that regard by the Board of Directors.

(c) The Committee shall recommend to the Board of Directors the appointment of the auditor, and shall be responsible for the approval and payment to the auditor of his fees and charges.

(d) The Committee will present annually to the Board of Directors a report of the Committee reviewing the operation and administration of the Plan up to the end of the fiscal period covered by the auditor's report.

SECTION XIII MANAGEMENT OF THE TRUST FUND

1. To facilitate operation of the Plan, the Corporation shall enter into a Trust Agreement establishing a Trust Fund to provide for the holding and investing of the Corporation's and Members' contributions to the Plan, together with the income derived therefrom. The Trust Agreement shall not constitute a part of the Plan. No Member or Member's estate or other person shall have any right in or to any part of the corpus or income of the Trust Fund or any part of the assets thereof, except when and to the extent expressly set out in the Plan.

2. The Trustee shall be appointed by the Corporation, with such rights, powers and authorities as are set forth in the Trust Agreement and any amendments or modifications thereof.

3. All expenses reasonably incurred in connection with the administration of the Plan including, but not limited to, legal fees, accounting fees and consulting fees, shall be paid by the Corporation.

All expenses reasonably incurred in connection with the Trust Fund including, but not limited to, fees of the Trustee, expenses incurred by the Trustee in managing and administering the Trust Fund and the assets thereof, taxes, governmental assessments, and similar charges shall be paid by the Corporation, with the exception of stock brokerage charges on the purchase of NOVA Common Shares, which charges shall be added to the purchase price of such shares.

SECTION XIV AMENDMENTS TO THE PLAN

1. Subject to any requirements of applicable law for shareholder approval, the Board of Directors reserves the right to amend, suspend or terminate the Plan at any time subject to the provisions of this Section XIV. Notwithstanding the foregoing, the Committee may correct manifest errors and typographical or clerical mistakes in the text of the Plan and the proper officers of the Corporation may execute all such documents as may be necessary to correct such errors and mistakes. Any such documents shall be filed with the Trustee.

2. In no event shall any amendment, suspension or termination of the Plan deprive a Member, a Member's estate, or a Member's beneficiary otherwise entitled to the benefits thereunder, of any benefits that have accrued on or before the date of amendment, suspension or termination.

3. No amendment, change or modification shall be made in the Plan which will, without its written consent, alter the trust duties of the Trustee.

EXHIBIT B

EMPLOYEE INCENTIVE STOCK OPTION PLAN (1982)

NOVA Corporation of Alberta (under its prior name NOVA, AN ALBERTA CORPORATION) heretofore established an employee stock option plan designated as the "Employee Incentive Stock Option Plan (1982)" effective as of September 10, 1982. Effective September 1, 1987, being the date upon which NOVA, AN ALBERTA CORPORATION was continued under the Business Corporations Act of Alberta (subject to the NOVA Corporation of Alberta Act) the Employee Incentive Stock Option Plan (1982) was amended. Effective as of the date of shareholder approval, the Employee Incentive Stock Option Plan (1982) is amended and restated as hereinafter set forth.

1. **Interpretation**

In this Plan (including this clause), unless there is something in the subject or context inconsistent therewith, words importing the singular number shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and the expressions following shall have the following meanings, respectively:

(a) "**Board**" shall mean the Board of Directors of the Corporation;

(b) "**Common Share**" shall mean a common share in the capital stock of the Corporation as constituted at September 1, 1987 or as subsequently consolidated or subdivided and any other share resulting from redemption or change of such share or from amalgamation, consolidation or merger;

(c) "**Committee**" shall mean a committee of Directors appointed by the Board in accordance with Clause 3 hereof;

(d) "**Corporation**" shall mean NOVA Corporation of Alberta and any successor or continuing corporation resulting from any form of corporate reorganization;

(e) "**Early Termination Date**" shall mean the date that an Option terminates prior to the Normal Expiration Date;

(f) "**Employee**" shall mean a key employee of the Corporation or its Subsidiaries and shall include officers and directors who are full time employees of the Corporation or a Subsidiary and employees of partnerships and joint ventures in which the Corporation or any of its Subsidiaries are participants;

(g) "**Expiry Date**" shall mean the Normal Expiration Date or the Early Termination Date, as the case may be;

(h) "**Market Price**" shall mean (i) the last reported sale price at which Common Shares traded on The Toronto Stock Exchange on the Option Date; or (ii) if there is no reported sale price at which Common Shares traded on such Exchange on the Option Date, then "Market Price" shall mean the last reported sale price at which Common Shares traded on such Exchange prior to the Option Date; in the event that the Common Shares are not listed on The Toronto Stock Exchange but are listed on another stock exchange or stock exchanges in Canada, the foregoing references to The Toronto Stock Exchange shall be deemed to be references to such other stock exchange, or, if more than one, to such one as shall be designated by the Board;

(i) "**Normal Expiration Date**" shall mean, in respect of any Option, the date determined by the Board on which the Option would normally terminate which date shall in no event be later than 10 years after the Option Date (except as otherwise provided in subclauses (i) and (ii) of clause 5(e) of the Plan);

(j) "**Option**" shall mean an option to purchase Common Shares pursuant to the Plan;

(k) "**Option Agreement**" shall mean an agreement entered into between the Corporation and an Employee pursuant to which an Option is granted to an Employee which agreement shall contain such provisions not inconsistent with the Plan as the Board or the Committee may determine;

(l) "**Option Date**" shall mean the date on which the Board grants an Option to an Employee;

(m) "**Option Shares**" shall mean the Common Shares which an Employee is entitled to purchase under an Option;

(n) "**Optionee**" shall mean an Employee who has entered into an Option Agreement with the Corporation;

(o) "**Plan**" shall mean the Corporation's "Employee Incentive Stock Option Plan (1982)" as embodied herein as from time to time amended;

(p) "**Purchase Price**" means the purchase price of Common Shares under an Option Agreement determined as provided in Clause 5(d) hereof;

(q) "**Retirement Plan**" shall mean the retirement plan of the Corporation in effect at the applicable time;

(r) "**Subsidiary**" means another corporation more than 50% of the outstanding Voting Shares of which are owned or controlled directly or indirectly by the Corporation or by one or more Subsidiaries of the Corporation, or by the Corporation and one or more of its Subsidiaries; "Voting Shares" means shares of the capital stock of a corporation having the right to elect directors of such corporation, provided that, for the purposes of this definition, shares which carry the right to vote conditionally only on the happening of some event shall not be considered Voting Shares unless one or more of such events shall have occurred and the right to vote remains effective at the relevant time.

2. Purpose of the Plan

The purpose of the Plan is to provide through Options incentive for Employees to produce constant improvement in operating results, to remain as Employees, to become the owners of Common Shares and to contribute to the growth in value of the Common Shares.

3. Administration, Participants and Allotments

The Plan shall be administered by the Board. The Board may at any time or from time to time delegate to the Committee the responsibility for administering the Plan or elements thereof. The Committee shall be composed of Directors who are not officers or employees of the Corporation, who are not eligible to participate in the Plan and who have not been eligible to participate in the Plan for a one-year period prior to the time they become members of the Committee. The Board shall receive the recommendations of the Committee and shall determine from time to time those Employees to whom Options should be granted, the Expiry Date, the number of Common Shares which should be optioned from time to time to any Employee and such other terms and conditions of the Option Agreement, not inconsistent with the Plan, as the Board in its discretion may determine. The Board or the Committee shall review the Plan from time to time with a view to making revisions to it, granting additional Options and, in the case of the Committee, making appropriate recommendations to the Board. Nothing contained in the Plan or in any resolution adopted or to be adopted by the Board or by the Committee shall constitute an Option hereunder. An Option granted by the Board to an Employee pursuant to the Plan is subject to, and shall be of no force and effect until the execution and delivery of an Option Agreement by both the Corporation and such Employee.

4. Common Shares Reserved

Subject to Clause 6 hereof, the total number of Common Shares which, at any one time, may be subject to issuance or which in the aggregate may be issued pursuant to the Plan shall not exceed 10,500,000. Any Common Shares covered by any Option which remain unpurchased upon expiration or termination of such Option shall become part of the Common Shares reserved for issuance but unallocated; provided, however, that in no event may the number of Common Shares issued under this program exceed the total number of Common Shares reserved for issuance hereunder. So long as any Options are outstanding under the Plan, the Board shall at all times reserve a sufficient number of unissued Common Shares to enable all of such Options to be exercised in accordance with their terms.

5. Certain Terms of Option Agreements

(a) Each Option shall terminate on its Normal Expiration Date but subject always to the provisions of subclause (e) of this Clause 5.

(b) The Board may in respect of any Option specify a number or percentage of Common Shares that the Employee may exercise in any specified period, year or number of years.

(c) An Option under the Plan is not exercisable as to less than 100 Common Shares at any one time and can be exercised only in blocks of 100 Common Shares or a multiple thereof.

(d) The Purchase Price shall be the price per Common Share fixed by the Board on the Option Date provided that such Purchase Price shall not be greater than the Market Price and shall not be less than the applicable discount from the Market Price permitted by the stock exchange or stock exchanges upon which the Common Shares are listed and by such other regulatory authorities having jurisdiction in that regard. The Purchase Price of Common Shares as to which an Option shall be exercised shall be paid in full in Canadian funds by certified cheque or bank draft payable to or to the order of the Corporation at the time of exercise.

(e) If subsequent to the Option Date and before the Normal Expiration Date the Optionee ceases to be an Employee and his employment terminates:

(i) by reason of death or permanent disability, the Option may be exercised during the period of one year after such date of death or the date of termination of employment by reason of permanent disability (but only as to such Common Shares in respect of which the Option would have been exercisable under the Option Agreement on such date of death, or date of termination of employment by reason of permanent disability, if such employment had not terminated as aforesaid) Provided That in the event that the death or termination of employment by reason of permanent disability occurs less than twelve months prior to the Normal Expiration Date then the Option may be exercised (but only as to such Common Shares in respect of which the Option would have been exercisable under the provisions of the appropriate Option Agreement on such date of death, or date of termination of employment by reason of permanent disability, if such employment had not terminated as aforesaid) within the period of twelve months after such date of death or date of termination of employment by reason of permanent disability notwithstanding such period of twelve months will extend beyond the Normal Expiration Date; in this Plan "permanent disability" shall mean the illness or physical or mental disability of an Optionee which in the opinion of appropriate professional advisors will, for the foreseeable future, prevent the Optionee from carrying on his employment;

(ii) by reason of retirement (other than by reason of permanent disability of the Optionee) under a Retirement Plan, the Option may be exercised up to a date ninety days after the date of such retirement or up to the Normal Expiration Date, whichever date shall first occur (but only as to such Common Shares in respect of which the Option would have been exercisable under the Option Agreement on such date of retirement if such employment had not terminated as aforesaid);

(iii) for any cause other than death, permanent disability or retirement under a Retirement Plan, the Option may be exercised (but only as to such Common Shares in respect of which the Option would have been exercisable under the provisions of the Option Agreement on such date of termination of employment if such employment had not terminated as aforesaid) up to a date thirty days after termination of employment or up to the Normal Expiration Date, whichever date shall first occur.

With respect to subclause (e) (i) of this Clause 5 the rights under the Option exercisable after the death of the Optionee, as therein specified, may be exercised by the person or persons to whom the Optionee's rights under the Option Agreement shall pass by will or applicable law or, if no such person has such right, by the deceased Optionee's executors or administrators.

(f) An Optionee who enters the armed forces of Canada, or in the case of an Optionee who is a citizen of another country, the armed forces of such other country or who, with the approval of the Board and on such conditions as the Board may in their discretion fix, temporarily enters the service of the Government of Canada or of any Province thereof in a civilian capacity or temporarily enters the service of the government of such other country, in a civilian capacity, shall not be deemed thereby (but only for the purposes of the Option Agreement) to have ceased to be an Employee, Provided That if he shall fail to return to full time service as an Employee within ninety days after his separation from the armed forces or from such civilian government service, such Optionee's Option shall

terminate (if not theretofore terminated or expired in accordance with the terms hereof) at the earlier of the Normal Expiration Date or the expiration of said ninety day period.

6. **Changes in Stock**

In the event

(i) of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise, or

(ii) of any stock dividend to holders of Common Shares, or

(iii) that any rights are granted to holders of Common Shares to purchase Common Shares at prices substantially below fair market value, or

(iv) that as a result of any recapitalization, merger, consolidation or otherwise the Common Shares are converted into or exchangeable for any other shares,

then in any such case the number of Common Shares available for Options, the number of Common Shares covered by outstanding Options and the price per Common Share in such Option shall be proportionately adjusted by the Board to prevent substantial dilution or enlargement of the rights granted to, or available for, holders of Options.

7. **Common Shares Fully Paid and Non-Assessable**

All Common Shares issued upon the exercise of any Option shall be issued as fully paid and non-assessable Common Shares.

8. **No Right to Employment**

The Plan and any Option granted under the Plan and any Option Agreement entered into pursuant to the Plan shall not give any Optionee the right to continue to be an Employee.

9. **Special Circumstances**

Notwithstanding anything contained herein,

(a) if in special circumstances a person is in the full time service of the Corporation as an officer, but is not actually an employee of the Corporation, then with the approval of the Board and of the stock exchanges upon which the Common Shares are listed and such other regulatory approvals as may be necessary, an Option may be granted under the Plan to such person subject to such terms and conditions as may be determined by the Corporation and accepted by such stock exchanges and other regulatory authorities but, subject as aforesaid, the terms and conditions of the Plan shall apply mutatis mutandis to such Option;

(b) if an Optionee is transferred out of Canada then the Board may in its discretion permit such Optionee to exercise the option to purchase all of the Common Shares as to which the Option was granted to such Optionee under his Option Agreement (and not theretofore purchased by such Optionee under such Option Agreement) notwithstanding the terms of his Option Agreement; and

(c) subject to such approvals of the stock exchanges upon which the Common Shares are listed and of such other regulatory authorities as may be necessary, the Board may grant options to Directors of the Corporation who are not full-time employees on such terms and conditions as may be determined by the Board and accepted by such stock exchanges and other regulatory authorities but, subject as aforesaid, the terms and conditions of the Plan shall apply mutadis mutandis to such options.

10. **Stock Appreciation Rights**

(a) In this Clause 10 the following expressions shall have the following meanings:

"**Exercisable Shares**" shall mean the number of Common Shares with respect to which at the Surrender Date the Employee is entitled to exercise the Option held by the Employee.

"**Option Premium**" at any date for Surrendered Option Shares shall mean the amount, if any, by which the Surrender Date Market Price exceeds the Option Price for such Surrendered Option Shares.

"**Option Price**" shall mean the exercise price per Common Share specified in the Option.

"**Settlement Shares**" shall mean Common Shares issued to an Employee in exchange for Exercisable Shares in accordance with a determination of the Board pursuant to Clause 10(c).

"**Surrender Date**" shall mean the date on which the Employee surrenders his right to acquire any Exercisable Shares.

"**Surrender Date Market Price**" shall mean the last reported sale price at which the Common Shares of the Corporation traded on The Toronto Stock Exchange on the Surrender Date, or if there is no reported sale price on such Surrender Date, then Surrender Date Market Price shall mean the last reported sale price at which Common Shares traded on The Toronto Stock Exchange prior to the Surrender Date.

"**Surrendered Option Shares**" shall mean that number of Exercisable Shares with respect to which the Employee elects to give up his option to acquire under the Option.

(b) The Committee may, in its discretion and subject to such terms and conditions as it in its sole discretion may prescribe, make recommendations to the Board to grant to an Employee the right to surrender all or part of his right to acquire Exercisable Shares and in exchange therefor to receive from the Corporation Settlement Shares.

(c) The Board may in its absolute discretion accept a recommendation from the Committee or vary such recommendation and grant to the Employee the right to surrender Surrendered Option Shares and acquire such number of Settlement Shares as is determined by multiplying the number of Surrendered Option Shares by a fraction of which the numerator is the Option Premium and the denominator is the Surrender Date Market Price.

(d) Any such right must be exercised by written notice to the Corporation.

(e) Such rights shall only be extended to Employees (i) if the exercise in the ordinary course would, in the opinion of the Board, cause undue hardship or (ii) in cases where, for other reasons, the normal exercise provisions would defeat the purposes of the Plan, or (iii) for other exceptional reasons, and in any event (iv) if the Board is satisfied that such action would be in accordance with applicable laws and regulatory requirements.

(f) In the event that Common Shares are issued pursuant to this Clause 10 then the aggregate number of Common Shares reserved for issuance under the Plan shall be reduced by the number of Common Shares actually issued and not by the number of Surrendered Option Shares.

11. **Conditions of Issuance of Shares**

If at any time the Board shall determine, in its discretion that:

(a) the registration or qualification of the Common Shares which are the subject of any Option Agreement upon, or the consent or approval of, any securities exchange,

(b) the registration or qualification under any laws of Canada or any Province thereof or of the United States or any state thereof or the consent or approval of any regulatory authority thereof,

(c) evidence (in form and content satisfactory to the Board) of the investment intent of the Optionee, and/or

(d) an undertaking of the Optionee as to the sale or disposition of such Common Shares purchased pursuant to an Option Agreement to the effect that such Common Shares so purchased will not be traded by the Optionee for a specified period of time,

is necessary or desirable as a condition of the issuance of any Common Shares pursuant to any Option Agreement, then the issuance of any Common Shares shall not be made unless and until such registration, qualification, consent, approval, evidence or undertaking shall have been effected or obtained free of any condition not acceptable to the Board.

Any trade by the Optionee in any Common Shares issued to the Optionee pursuant to the Plan and including any sale or disposition for valuable consideration, and any transfer, pledge or encumbrance of any Common Shares issued to an Optionee pursuant to the Plan shall be subject to such regulatory approvals as may be required at the time of such trade. Accordingly, the Corporation makes no representation as to the ability of any Optionee to trade in such Common Shares.

The Corporation cannot assure a profit or protect the Optionee against a loss on the Common Shares purchased under the Plan. The Corporation assumes no responsibility relating to any tax liability of the Optionee by reason of the exercise of any Option or any subsequent trade.

12. Interpretation, Amendment and Discontinuance

The Board may interpret the Plan, prescribe, amend and rescind rules and regulations relating to it, and make all other determinations necessary or advisable for its administration. The Board may from time to time alter, suspend or discontinue the Plan provided that such alteration, suspension or discontinuance shall not divest any Optionee of any rights such Optionee may have under any Option Agreement theretofore executed and delivered by the Corporation and such Optionee and provided further that any amendments required by applicable law to be approved by Shareholders shall not become effective until so approved. Subject to the foregoing provisions of this Clause 12, the Board may terminate the Plan at any time.

13. Notices

The manner of giving notices to the Corporation or to an Optionee shall be specified in the Option Agreement with such Optionee.

14. Shareholders Rights Prior to Exercise

An Optionee shall have no rights whatsoever as a shareholder in respect of any of the Option Shares (including any right to receive dividends or other distributions therefrom or thereon) other than in respect of Option Shares in respect of which the Optionee shall have exercised his Option to purchase thereunder and which the Optionee shall have actually taken up and paid for.

15. General

(a) This Plan and each Option granted under the Plan shall be governed by and construed in accordance with the laws of the Province of Alberta and any Option Agreement entered into pursuant to the Plan shall be treated in all respects as an Alberta contract.

(b) The following officers of the Corporation are hereby authorized to execute and deliver, under corporate seal or otherwise, all instruments and documents (including, without limitation, option agreements) and do all things necessary or desirable for carrying out the provisions of the Plan:

  (i) any two of the Chief Executive Officer, President, Executive Vice President, Secretary to the Board, Corporate Secretary, Assistant Secretary; or

  (ii) such other officer or officers as the Board may from time to time designate.

(c) Nothing contained herein shall restrict or limit or be deemed to restrict or limit the rights or powers of the Board in connection with any allotment and issuance of shares in the capital stock of the Corporation which are not reserved for issuance hereunder.

(d) The Plan and any Option Agreement entered into pursuant hereto shall enure to the benefit of and be binding upon the Corporation, its successors and assigns. The interest of any Optionee hereunder or under any Option Agreement shall not be transferable or alienable by the Optionee either by assignment or in any other manner whatsoever and, during his lifetime, shall be vested only in him,

but shall, subject to the terms hereof and of the Option Agreement, enure to the benefit of and be binding upon the legal personal representatives of the Optionee.

(e) The Options are not intended to qualify as "incentive stock options" under Section 422A of the Internal Revenue Code of 1986, as amended.

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NOVA

[illegible] Annual Report

The Cover

THE COVER WAS CREATED BY PHOTOGRAPHING THE NOVA LOGO, EMBOSSED ON SEVERAL SHEETS OF POLYETHYLENE FILM.

The NOVA Logo

A-SHAPED FOR ALBERTA

NATURAL GAS FLAME

NATURAL GAS PIPELINE

PETROCHEMICAL FLASK

Incorporated in the province of Alberta, NOVA is a major shareholder-owned energy company operating internationally with world headquarters in Calgary. NOVA's businesses cover petrochemicals, pipelines and gas marketing, petroleum, and related engineering and manufacturing.

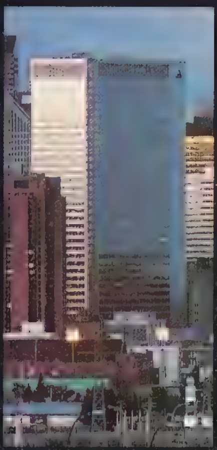
In 1988, the Corporation generated $3.9 billion in sales and $424 million in net income. Assets at the end of 1988 were $8.2 billion. NOVA and its subsidiaries and affiliates employ about 13,000 people in Canada, the United States, Europe and Pacific Rim countries.

1988 Operations

- Petrochemical and plastics operations increased output significantly and reduced unit production costs. Commodity prices continued to strengthen in response to increasing demand worldwide.
- The Alberta Gas Transmission Division transported a record 2.75 trillion cubic feet of natural gas, and capital investment increased in response to customer requests for new capacity to meet a growing demand for natural gas.

1988 Financial

- Consolidated net income rose to $424 million from $179 million in 1987.
- Fully diluted net income per common share was $1.66 compared with 67 cents in 1987.
- Common share dividend increased 10% to 11 cents quarterly from 10 cents.
- Common equity increased to $2 billion.



NOVA OPERATES WORLDWIDE FROM HEADQUARTERS IN CALGARY, ALBERTA, CANADA.

Consolidated Financial Highlights

(millions of dollars except for share data)

Year Ended December 31	1988	1987	% Change
Financial			
Revenue	$3,941	$2,322	70
Operating Income	$ 978	$ 528	85
Net Income	$ 424	$ 179	137
Net Income to Common Shareholders	$ 402	$ 130	209
Net Income Per Common Share			
Basic	$ 1.76	$ 0.70	151
Fully diluted	$ 1.66	$ 0.67	148
Cash Flow			
Cash From Operations	$ 863	$ 478	81
Common Equity*	$1,974	$1,303	51
Per Share	$ 7.60	$ 5.76	32
Return On Average Common Equity	24.5%	13.3%	84
Dividends Per Common Share	$ 0.42	$ 0.40	5

* Includes convertible debentures and warrants

All dollar figures used in this annual report are in Canadian dollars unless indicated otherwise. On February 24, 1989, the Bank of Canada noon rate for U.S. dollars was reported as U.S.$1.00=Cdn.$1.1984 and Cdn.$1.00=U.S.$0.8344. (See exchange ratios on page 30.)

Contents

Annual Meeting

NOVA CORPORATION OF ALBERTA'S ANNUAL MEETING WILL BE HELD ON TUESDAY, APRIL 25, 1989, AT 10:30 A.M. IN THE CALGARY CONVENTION CENTRE, 120 NINTH AVENUE S.E., CALGARY, ALBERTA.

Rapports annuels en français

VEUILLEZ VOUS ADRESSER AU SECRÉTAIRE DE LA SOCIÉTÉ SI VOUS DÉSIREZ RECEVOIR UN EXEMPLAIRE DE LA VERSION FRANÇAISE DE CE RAPPORT.

NEW LEVELS OF INCOME AND EARNINGS PER SHARE

Net income to common shareholders for 1988 rose 209% to $402 million providing $1.76 per share basic earnings and $1.66 per share fully diluted.

The original management target for 1988 earnings had been $1.00 per share fully diluted, a 50% improvement over the previous year's performance.

As the year progressed, steps taken to increase production output and lower costs joined further price recovery of polyethylene and methanol commodities to produce far better results. Even before accounting for income derived from the Corporation's investment in Polysar Energy & Chemical Corporation (PYC), 1988 earnings moved to $1.25 per common share fully diluted.

The investment in PYC which commenced 1988 as a minority holding reached 100% ownership in the third quarter and added earnings of 41 cents per common share to produce $1.66 for the year.

CONSOLIDATION OF POLYSAR LIMITED

NOVA's acquisition of PYC and consolidation of its petrochemicals unit, Polysar Limited (Polysar), was reported extensively in 1988. All main steps were documented exactly in filings to securities regulators. Some differences between managements of NOVA and PYC were described dramatically in the daily press. There was however a considerable identity of purpose between NOVA and Polysar people toward a strong long-term future for the world-class petrochemicals operation founded by Polysar in the 1940s. That became fully apparent in the exceptional speed and goodwill of the integration of Polysar with NOVA during the fourth quarter.

A short summary should be provided as follows. During 1987, NOVA became aware that PYC was commencing some restructuring of its business which could lead to NOVA having the opportunity to acquire Polysar. Also during this period, PYC sold its Latex Division to BASF of West Germany and was preparing to sell other parts of Polysar. Discussions began with PYC management and NOVA acquired 10% of the PYC shares.

During the first five months of 1988, attempts to reach agreement on price were unsuccessful. Meanwhile, NOVA increased its ownership position to about 25% of the PYC common shares and sought representation on the PYC Board. An agreement was reached ultimately in June and the PYC Board agreed both to recommend acceptance of an offer to their shareholders and to hold the company together until a shareholders' meeting could consider the NOVA offer.

The PYC shareholders' meeting occurred in August and accepted the NOVA offer.

The transaction closed in September. Concurrent with the acquisition of PYC by NOVA, NOVA's affiliated company, Husky Oil Ltd., purchased all the outstanding shares of Canterra Energy Ltd., the other main asset of PYC.

NOVA's objective throughout was to broaden and extend its petrochemicals business into an absolutely world-class competitive presence. In the later part of the third quarter and throughout the fourth quarter, NOVA and Polysar managements joined in an extensive program of familiarization and preliminary integration for future business, through many meetings ranging across Canada, the United States and Europe. Polysar's petrochemicals management and its work force, plants and marketing offices continue full-scale operation under the new NOVA ownership. In the fourth quarter, the Polysar Board of Directors now comprising NOVA officers, Polysar officers, and non-management directors from Ontario and Alberta, authorized several programs for incremental expansion of Polysar production.

NEW SCALE AND REACH OF NOVA

So, by the time of writing this report, the enlarged NOVA is well integrated for future business competitiveness. The main result of adding together the strong previous petrochemicals business of NOVA and its pipeline operations and petroleum investments to the ongoing business of Polysar is the creation of a highly prominent and competent Canadian-headquartered and world trading organization.

NOVA now ranks in the top half dozen in North America as to production of each of ethylene, styrene, polyethylene, polystyrene, synthetic rubber and methanol. It ranks in the top ten list of petrochemicals firms in North America and in the top 20 worldwide. In specialties including synthetic rubber products and some pipeline engineering skills, it is one of the business leaders in the world. Its research, product development and other technical functions are well up among the most extensive of Canadian industrial companies.

There are clearly synergistic opportunities between our business units, opportunities for further cost savings, and new competitive bases to be exploited steadily in the future.

OUTLOOK FOR 1989

NOVA management has set a target for 1989 net income to common shares of $540 million. This would produce $2.00 of earnings per common share. Top

priority is being given this year to maintaining financial performance at such a higher level and to reducing a substantial part of the long-term debt incurred in the PYC acquisition.

The 1989 net income target allows for some lowering of petrochemical commodity prices during the year but now must also hurdle the jump in Canada/U.S. exchange rate of recent months. The main point however is that NOVA now has the capability to pursue income improvement at this higher level.

Petrochemicals industry observers are pointing to two grey clouds on the horizon for the industry's presently favourable business climate. One is the prospect of a major slowdown in world economies and trade which has been widely predicted as a logical expectation following the unusually long period of sustained world economic growth in the 1980s. The second is the possibility that the petrochemicals industry will soon again experience major reductions in operating margins because of future over-expansion of production capacity. These hazards are in our minds constantly but are not at all daunting. We are not expecting presently that such swings would be severe in the predictable future, or even that they will necessarily occur as large events. Our current program of debt reduction is proceeding quickly and the technical skills and operating know-how of our people, and operational and financial management have been tested and proven across the whole organization in recent periods which have included some difficult years.

Further growth of financial performance will therefore be pressed forward to the fullest extent feasible.

A good prospect continues for an Alberta petrochemicals expansion based on our Ethylene III proposal on which we have worked since 1984. A regulatory agency report published in May 1988 appeared to send terminal notice for such plans; however a subsequent Government policy statement re-encouraged this effort. In the first quarter of 1989 efforts continue to contract necessary ethane feedstock supply and if a good return on capital can be assessed, we intend to proceed with a project on an appropriate schedule.

BASIC QUALITIES CONTINUE

After working through the tests of the 1980s, there are dependable strengths to be used for NOVA now. There is leading performance in product quality and cost control for production of valuable industrial goods and products across our petrochemicals divisions. There is the cost efficiency and technical skill of our operations in the pipeline sector.

There are good quality natural gas and oil reserves investments to be used in the best manner. The operation as a whole is well balanced. In fact as a larger

user than a producer of natural gas and oil, NOVA is not challenged by low crude oil prices. Husky Oil Ltd., through which NOVA has its largest petroleum investment, has been taking the right steps under the direction of its president, Arthur Price.

We believe that there are two particular points to make about basic qualities. One is that, after a history of aggressive asset building since the mid-1970s, NOVA no longer requires to spend large amounts of capital for start-ups in new business sectors. That phase, while necessary in our past, has passed. Large new investments can be considered when their returns are prompt but it is no longer seen as necessary to make large investments mainly for long-term strategy reasons.

The second point is that many of NOVA's present production and pipeline investments can be expanded at relatively lower incremental cost of capital per unit of capacity added. This has become one of our main bases of profit increase in the last two years and that feature will continue.

BOARD AND MANAGEMENT

Mr. Harold P. Milavsky was appointed to the Board in the second quarter and the Honourable John B. Aird and the Honourable Willard Z. Estey joined in the third quarter. In January 1989, Mr. R. Alastair Morton was appointed. Messrs. Arthur J. E. Child and Fred A. McKinnon are not eligible for renomination as directors at the 1989 annual meeting because of the Board's age retirement policy. We thank them earnestly for their long devotion to the Corporation and their substantial contributions to our meetings and decisions.

At the 1988 annual meeting, James H. Butler succeeded Robert L. Pierce as president of the Corporation. Bob Pierce became one of the leaders in the evolution of NOVA on his arrival in 1973 and elements of the Corporation's strength should be attributed to his participation in leadership. He continues to act as chairman and deputy chairman of two important affiliate companies.

Jim Butler has contributed materially to the strengthening of NOVA as a petrochemicals company since his arrival in 1986. His appointment as president last year reflected both his overall executive capacity for NOVA as a whole and a complete integration of the NOVA petrochemicals affiliates into NOVA's headquarters and organization which occurred during 1988.

Executive vice president and chief financial officer Bill Wilson, whose executive abilities and experience also apply across all of NOVA Corporation, was named chairman of the Polysar Limited Board in 1988. He has added to the Corporation's reputation for management of the professional corporate activities.

Messrs. G. Firman Bentley and Pierre Choquette, who head the two Polysar divisions, became senior vice presidents of NOVA, too, in 1988. NOVA senior vice president Bruce W. Simpson was appointed president of our Alberta Gas Transmission Division. Symmetrically, Novacorp International president Donald G. Olafson became a senior vice president of NOVA Corporation, as did Novacor Chemicals' president, John E. Feick.

NOVA's CONTINUING CHARACTER

While this kind of growth has proceeded and Polysar became consolidated, there are long standing features of NOVA which are being maintained watchfully.

We do not lose track of the key point that it is the hard-working personnel of the Corporation at every level who build long-term success.

Many of these personnel are women whose emergence into managerial and executive roles should naturally accelerate in our industries. We are proud that we have had women in senior positions since the early 1970s.

NOVA's leading record as a large employer of native people and customer of native contractors is being maintained.

Accommodation of special needs of handicapped employees continues in our Calgary world headquarters.

Environmental protection and care for occupational health are afforded the highest current standards, which brings major new responsibilities now. NOVA's commitment to protecting employees, customers, the public and the environment is fundamental to the way we conduct our business. This means we will continue to direct the resources needed to achieve this goal.

It is well known to us that these subjects are of lasting importance to many NOVA shareholders and we will do our best to have their fullest respect accordingly.

COMMON SHARE DIVIDENDS AND SHARE PRICE APPRECIATION

NOVA began paying dividends on common shares in 1962 and through 1988 has paid $662 million for a long-term average pay-out of 47% of earnings. Most of the earnings were derived from pipeline and petroleum operations.

With the increased earnings contribution coming from petrochemicals, which may be more cyclical, we believe that it is now appropriate to re-evaluate the dividend pay-out ratio.

In February 1989, the common dividend rate was again increased, this time by 18% to 13 cents per share quarterly, or 52 cents annualized.

NOVA has made a tradition of protecting the common dividend. When difficult years occurred, every measure, other than dividend reduction has been pursued first, including reduction of management compensation. Consequently, the NOVA common dividend has never been reduced.

Over 27 years of common dividend payment, the dividend rate increased on 18 occasions and increased by 6.2 times, for a compound annual increase of 7%.

Over 32 years of common share market listing, the annual compound rate for total return to shareholders has been 17%, provided 5.7% by dividend yield and 11.3% by market price appreciation.

Respectfully submitted on behalf of the Board,

S.R. Blair,
Chairman and
Chief Executive Officer

February 24, 1989

NOVA has established policies and programs in such areas as employee development, health, safety and environment, corporate contributions, and applied research and development.

Human Resources

NOVA's policies in support of non-discriminatory hiring, compensation and employee development reinforce performance as the key to career development. In addition, the Corporation's geographic and business mix presents opportunities to further develop a worldwide employee base committed to the achievement of corporate goals.

NOVA is proud of the positive attitude of employees and of the enthusiasm employees exhibit in representing the Corporation at the work place and in the communities where they live.

The Corporation strives to provide a work environment in which employees are challenged to improve performance and productivity, resulting in mutual benefits to employees and NOVA.

The challenge inherent in this objective has been intensified by substantial increase in the employee base and enhanced by the synergies gained through the Polysar acquisition. NOVA's employees form a large and sophisticated pool of professional, technological and scientific workers. For 1989, priority is being given to employee communication and training to ensure that high productivity is sustained or increased.

AMONG NOVA'S CONTRIBUTIONS TO COMMUNITY PROGRAMS WAS SUPPORT FOR 'UP WITH PEOPLE'.

Health, Safety and Environment

NOVA is committed to operating its businesses at the highest achievable standard to protect employees, customers, the public and the environment.

All NOVA employees practise and encourage safe work habits and environmental responsibility as appropriate work practices. The Corporation's health, safety and environment department, through established policies, company standards and routine audits, ensures that NOVA's operating units meet or exceed all applicable laws and standards while continuing to operate in a productive and economic manner.

Health, safety and environment personnel play key roles in acquisition, construction and operation of facilities, training and certification of employees, crisis preparedness and applied toxicology.

In 1989, the Corporation will commit significant funds and resources to further improve working conditions and reduce environmental risks.

Corporate Contributions

NOVA's corporate contributions program is among the largest in Canada, in recognition of the Corporation's responsibility to support endeavours in the communities in which it operates. It is planned, organized and implemented by a committee comprising NOVA directors and management representatives.

In 1988, corporate contributions activity was expanded to strengthen support to national organizations and to reflect the international scope of NOVA's business activities. NOVA's commitment to the environment will again be supported through sponsorship of the Pitch-In campaign in Alberta and Ontario. The campaign is dedicated to litter containment.

NOVA emphasizes health and welfare support in its major operating regions and provides long-term support to educational institutions for faculties of management, engineering, and native education. This support is intended to help develop important human resource skills.

Research

NOVA's business objectives are supported by a major commitment to applied research, development and technical service. These activities are conducted at facilities in Canada, the United States, Belgium, France and Singapore. Research focuses on petrochemical, pipeline and petroleum technology.

NOVA'S PETROCHEMICAL BUSINESSES SET NEW PRODUCTION AND SALES RECORDS IN 1988

THIS BASIC PETROCHEMICAL FACILITY, AMONG OTHER ASSETS, WAS ACQUIRED IN 1988 THROUGH THE PURCHASE OF POLYSAR LIMITED.

PETROCHEMICALS

Petrochemical and plastics industries set new production and sales records in 1988 as demand for products continued to strengthen in North America and around the world, resulting in higher prices and sales volumes. Petrochemical plants in North America operated at 96% of total capacity, compared with 95% in 1987.

The recovery began in 1987 after a major recession and industry overbuilding in the early 1980s resulted in severely reduced petrochemical and plastics prices.

NOVA's primary products—ethylene, styrene, propylene, polyethylene, polystyrene and methanol—remained in short supply in 1988, particularly in North America. NOVA's synthetic rubber business continued to earn strong returns in a stable market environment, operating at 93% of capacity, compared with 86% in 1987.

The increased demand for petrochemical products results from continued growth in the use of plastics in industrialized countries and the growth of new markets in developing countries. In particular, the Pacific Rim has emerged as a major, long-term market.

Review of 1988

(millions of dollars)

	1988	1987	% Change
Assets	**$4,544**	$1,195	280
Revenue	**$2,472**	$1,021	142
Operating Income	**$ 681**	$ 203	235

NOVA conducts its petrochemical operations primarily through two operating subsidiaries, Novacor Chemicals Ltd. and Polysar Limited, both 100% owned.

Operating results for the petrochemical division improved substantially

in 1988 due to gains in productivity, lower manufacturing costs and a strong upturn in world markets linked to increased demand and higher prices.

Basic Petrochemicals

Production

(millions of pounds)

	1988	1987	% Change
Ethylene			
Joffre	**3,130**	2,850	10
Sarnia	**1,150**	985*	17
Styrene	**630**	610	3
Propylene	**720**	600	20
Other Products	**3,380**	2,860	18

*Affected by bi-annual 30-day shutdown.

Production at the two ethylene plants at Joffre, Alberta, increased as a result of debottlenecking of existing facilities. This business, conducted under long-term, pay in all events supply contracts with cost-related prices, continued to contribute steadily to profit. Ethane feedstock is obtained under long-term contracts and commercial arrangements that provide assured supply and cost stability. Higher operating rates allowed NOVA to provide lower-cost ethylene to its customers and to its Alberta-based polyethylene business.

Production also increased at NOVA's integrated refinery/petrochemical complex and other basic petrochemical facilities at Sarnia, Ontario. About 20% of total production was used to produce rubber and plastics. The remainder was sold to other manufacturers in Canada and the United States.

This Sarnia-based business operates under full market conditions. NOVA benefited as ethylene prices on the U.S. Gulf Coast rose to a year-end price of 33 cents (U.S.) a pound in 1988 from 19 cents in 1987 and 14 cents in 1986. Similarly, styrene prices increased to 47 cents a pound from 40 cents in 1987 and 24 cents in 1986. Propylene prices increased to 19 cents from 18 cents in 1987 and 9 cents in 1986.

North American Ethylene Operating Rate

(percent)

Plants operated at maximum production levels due to strong customer demand. In addition to higher prices and production levels, basic petrochemical activities were strengthened in 1988 by ongoing implementation of cost reduction programs initiated during the mid-1980s. These programs improve operating efficiency and provide lower-cost, more flexible feedstock supply arrangements. These supply arrangements enable the Sarnia basic petrochemical complex to alternate to the most economical feedstock and product slate.

Plastics

NOVA produces linear low-density polyethylene using the latest technology at a world-scale plant at Joffre, and low-density and high-density polyethylene at a plant at Sarnia. Polystyrene is produced at two plants in Canada and four plants in the United States. NOVA's main plastic end uses include films, flexible packaging, containers of all types, and a wide variety of consumer goods. Major markets for polyethylene are Canada, the United States and the Pacific Rim; polystyrene is sold primarily in North America.

Production

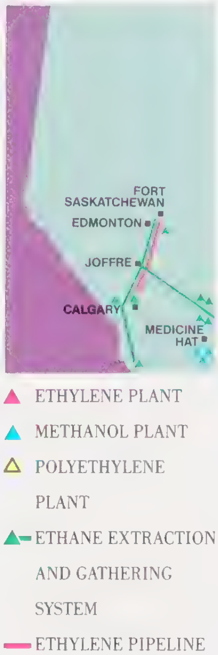
(millions of pounds)

	1988	1987	% Change
Linear Low-density Polyethylene	**870**	800	9
Low-density Polyethylene	**170**	135	26
High-density Polyethylene	**210**	145	45
Polystyrene	**735**	735	—

All plants operated at or near capacity to meet strong demand.

Polyethylene prices rose to 52 cents (U.S.) per pound in 1988 from 32 cents in 1987 and 26 cents in 1986. In addition, unit operating costs have been reduced over the past two years through

Petrochemical Facilities in Alberta



technical improvements to facilities, rationalization of product lines, expansion of plant capacities, and reduced feedstock costs.

Polystyrene prices increased to 61 cents (U.S.) a pound in 1988 from 47 cents in 1987 and 33 cents in 1986.

NOVA is adding production of higher value-added resins, with the emphasis on clear, high-performance products that command premium prices due to their unique properties. In response to environmental needs, additives are being developed that allow plastic resins to degrade more quickly in sunlight than traditional resins.

In 1988, NOVA established a new business to produce polyethylene geomembrane sheet. Geomembrane products are used in environmental applications such as providing impermeable containment liners for industrial settling ponds and landfill sites. Proprietary technology is used to produce sheet products from NOVA polyethylene resin.

Early in 1989, NOVA acquired an interest in the assets of Advanced Polypro Resins, Inc., of Marysville, Michigan. This company, renamed Genesis Polymers, produces polypropylene resin and thermoplastic olefins for sale in the United States and Canada. Annual production at this new plant, which uses the latest technology, is rated at 120 million pounds. The products are used extensively in demanding applications by the automotive industry. Feedstock is delivered to the plant by pipeline from NOVA's basic petrochemical facility at Sarnia.

Petrochemical Facilities in the United States

▲ PLASTICS
▲ RUBBER
△ SPECIALTY PRODUCTS

Rubber

Synthetic rubber is produced at four sites, one in Canada, one in the United States and two in Europe. Major end uses include tires, automotive components, footwear and industrial equipment. Synthetic rubber products are sold around the world from 20 sales offices.

Major rubber products include styrene-butadiene rubber, nitrile rubber, polybutadiene rubber, butyl rubber, halobutyl rubber and ethylene-propylene rubber.

Total sales in 1988 were approximately 1 billion pounds. Despite downward pressure on profit margins, particularly in Europe, a global marketing strategy and consistent focus on technological improvements continued to provide steady income from this business.

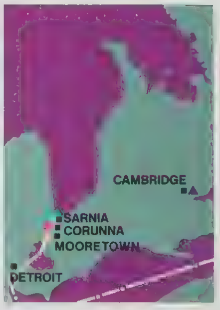
The rubber group is focused on the development of value-added specialty rubber products that meet specific customer needs. During 1988, facilities in Orange, Texas, were expanded using advanced technology to create new specialty products. This market represents a growing business for NOVA.

Methanol

Methanol, produced at three plants at Medicine Hat, Alberta, is widely used in the construction and transportation industries around the world.

Revenue in 1988 rose to $193 million from $90 million in 1987. Two plants were restarted, one in late 1987 and one in early 1988, as a result of increased demand. World market conditions caused methanol prices on the U.S. Gulf Coast to rise to about 59 cents (U.S.) a U.S. gallon in 1988 from 41 cents in 1987 and 26 cents in 1986.

Petrochemical Facilities in Ontario



△ POLYETHYLENE
▲ RUBBER
▲ STYRENE
▲ POLYSTYRENE
▲ INTEGRATED REFINERY/BASIC PETROCHEMICALS

Outlook for 1989

The strong profit performance of NOVA's petrochemical division is expected to continue in 1989.

Industry forecasts indicate that, in the absence of a major recession in North America, the demand for petrochemicals and plastics will continue to grow at a rate comparable to gross national product.

Although commodity prices have risen over the past two years to levels that encourage investment in added facilities, little new capacity is expected to come on stream over the next two or three years. NOVA is in the advanced planning stages for investments in selected new production facilities and is well positioned to move forward with construction in 1989 if market conditions permit.

EQUIPMENT SUCH AS THIS BLOWN FILM LINE ALLOWS NOVA TO PROVIDE CUSTOMERS WITH PRODUCTS, INCLUDING DEGRADABLE PLASTICS, BEST SUITED TO THEIR NEEDS.

In Sarnia, existing basic petrochemical facilities will be expanded to increase capacity by approximately 300 million pounds a year of ethylene and other products. Also in 1989, a styrene plant will be restarted in the second quarter, increasing production capacity by approximately 200 million pounds.

For plastics, work is under way on an expansion at the Decatur, Alabama, plant which will add 200 million pounds of polystyrene capacity in 1990.

In addition, the ongoing tightness of ethylene and polyethylene markets, together with implementation of the free trade agreement between Canada and the United States, has encouraged NOVA to consider expansion of ethylene and polyethylene facilities at Joffre. These plans are supported by a recently introduced ethane policy in Alberta that provides an acceptable framework for the extraction and commercial acquisition of ethane feedstock from natural gas. The final definition of this project will be made in 1989.

Overall, the plastics group expects to achieve strong profitability in 1989, similar to that achieved in 1988.

In synthetic rubber, a new high performance rubber named TORNAC is being introduced commercially to the automotive, petroleum, aerospace and defence industries.

In methanol, prices are expected to ease slightly in 1989 due to increased world capacity as previously idled plants are restarted. This trend will be partially offset by growth in demand for transportation uses.

FOR THE SECOND CONSECUTIVE YEAR, NOVA PIPELINES CARRIED RECORD QUANTITIES OF NATURAL GAS

FINAL PROCEDURES ARE COMPLETED AT NOVA'S NEW SCHRADER CREEK COMPRESSOR STATION.

PIPELINES & GAS MARKETING

Total marketed Canadian natural gas production increased about 12% to an estimated 3.1 trillion cubic feet in 1988, largely because of increased demand from the United States.

Sales to the United States rose by approximately 27% and Canadian sales rose by about 9%. As a result, Canadian pipelines are operating at close to capacity. This strong demand for gas creates a need for expansion of the NOVA system.

Average prices received by gas producers remained flat because of surplus supplies and competition for natural gas contracts in all markets.

Review of 1988

(millions of dollars)

	1988	1987	% Change
Assets	**$2,358**	$2,232	6
Revenue	**$1,337**	$1,156	16
Operating Income	**$ 291**	$ 320	(9)

NOVA's pipeline and gas marketing businesses include the Alberta Gas Transmission Division, 100% owned, and 50% ownership of Foothills Pipe Lines (Yukon) Ltd., Trans Québec & Maritimes Pipeline Inc. and Pan-Alberta Gas Ltd.

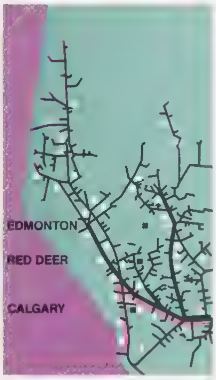
The Alberta system carries more than 13% of the gas produced annually in Canada and the United States, including over 80% of marketed Canadian production.

Total volumes transported through NOVA's Alberta system in the 1988 calendar year rose 17% to a record 2.75 trillion cubic feet, compared with the previous record 2.35 trillion cubic feet in 1987. Leading the increase were deliveries to the midwestern United States,

NOVA System 1988 Gas Deliveries

(billion cubic feet—2,751 total)

Gas Transportation in Alberta



ALBERTA GAS TRANSPORTATION SYSTEM

ALASKA HIGHWAY GAS PIPELINE SYSTEM, PHASE I

△ COMPRESSOR STATION

customers in California and the Alberta industrial market.

Operating income declined in 1988 as a result of lower income tax billings, which are a recoverable operating cost under this cost-of-service business and have no impact on net income.

Some 2.18 trillion cubic feet was exported from Alberta in 1988, including 519 billion cubic feet to California. About 314 billion cubic feet was exported from Alberta, destined for the U.S. midwest via the Foothills pipeline system. Deliveries in Alberta totalled 572 billion cubic feet, up 17% from 1987.

Pipeline investment in 1988 focused on the addition of horsepower in new and existing compressor facilities in Alberta to expand system receipt capability in response to requests from natural gas shippers and producers. Capital spending totalled about $250 million.

At December 31, 1988, NOVA's Alberta system comprised 9,222 miles of pipeline, 36 compressor stations and 851 major receipt and delivery points. The rate of return was 11.49% on an average rate base of $1.4 billion, with an after-tax return of 13.25% on 32% common equity.

Phase I of the Alaska Highway Gas Pipeline system, owned and operated by Foothills, delivers Alberta gas to markets in the United States. It was built in the early 1980s as the first phase of a major system to bring Alaska gas to market in the lower 48 states.

The system's western leg operated in excess of contracted capacity at 277 million cubic feet a day and the eastern leg, with contractable capacity of 1,075 million cubic feet a day, operated at about 85% of contracted capacity. Throughput on the eastern leg increased by 81%, primarily because of Pan-Alberta marketing initiatives. In 1988, the Foothills system transported more gas to the United States than any other Canadian pipeline system.

At December 31, 1988, Foothills' eastern and western legs comprised 528 miles of pipeline, four compressor stations and four meter stations. NOVA's share of the average rate base was $306 million in 1988, which earned an after-tax return of 14.25% on a 25% common equity component.

Trans Québec & Maritimes Pipeline, which transports gas in the province of Quebec, carried about 91 billion cubic feet in 1988, down slightly from 93 billion cubic feet in 1987. At December 31, 1988, TQM facilities comprised 213 miles of pipeline, 10 meter stations and five sales taps. NOVA's share of the average rate base in 1988 was $192 million, which earned an after-tax return of 13.75% on a 25% common equity component.

Gas Marketing

Pan-Alberta, the largest independent Canadian marketer of gas to the United States, had record total sales of 398 billion cubic feet in 1988, up 36% from 293 billion cubic feet in 1987.

About 90% of Pan-Alberta's gas sales are to the United States. During 1988, the company continued to benefit from the deregulated gas environment by extending its sales to virtually all segments of the U.S. market.

Outlook for 1989

NOVA's Alberta system, operating at record levels for the past two years, will continue to transport high volumes in 1989. As a result, capital spending on the Alberta system, driven by customer requests for increased capacity, is budgeted at more than $300 million in 1989.

Foothills will apply for regulatory approval to expand its eastern leg by up to 275 million cubic feet a day, to a total of 1.35 billion cubic feet a day. The eastern leg can be expanded at relatively low cost. Foothills remains committed to the completion of the Alaska Highway Gas Pipeline in the middle to late 1990s.

Pan-Alberta expects its high sales to continue in 1989, constrained only by the current capacity limits of existing pipelines to deliver more gas into the United States.

Alberta System Unit Cost of Service Transportation Charge

(cents per thousand cubic feet)

CAREFUL SELECTION OF NEW OPPORTUNITIES STRENGTHENS NOVA'S BUSINESS BASE

NEW PRODUCTS SUCH AS THIS DEW POINT MONITOR CONTRIBUTE TO NOVA'S TECHNOLOGICAL EXPERTISE.

PETROLEUM & OTHER BUSINESSES

NOVA has interests in petroleum, manufacturing, and international consulting.

In the petroleum sector, the industry continued to face the challenge of low oil prices resulting from excess world oil supply. Strengthening demand for natural gas and refining and marketing activities provided opportunities to cushion the impact of low oil prices.

Manufacturing and international consulting activities remained stable.

Review of 1988*

(millions of dollars)

	1988	1987	% Change
Assets	**$1,340**	$1,259	6
Revenue	**$ 132**	$ 145	(9)
Operating Income	**$ 6**	$ 5	20

*Husky, equity accounted, contributed net income of $7 million in 1988 and $11 million in 1987.

Petroleum

NOVA's petroleum investments comprise Husky Oil Ltd., 43% owned, and Novalta Resources Ltd., 100% owned. Husky is an integrated Canadian oil and gas company engaged in exploration, development, production, refining, marketing and transportation of crude oil and natural gas. During 1988, Husky acquired Canterra Energy Ltd., a major Canadian producer of oil, gas and sulphur. This acquisition and ongoing Husky

activities have significantly improved the company's position in key Canadian petroleum sectors of natural gas, conventional oil, heavy oil/oil sands, the Canadian frontier and sulphur.

Novalta Resources is engaged primarily in the acquisition, development, production and marketing of natural gas, with activities centred in Alberta. Novalta increased its gas sales volumes by 21% to 18 billion cubic feet in 1988. In total, Novalta managed gas deliveries of 100 million cubic feet per day in 1988. A majority of Novalta's total gas sales were made to NOVA's petrochemical installations.

Other Businesses

NOVA's manufacturing activities are conducted by Grove Italia S.p.A., 100% owned, which manufactures pipeline valves and flow control products in Italy and the United States for worldwide sale to the energy industry. The valve group maintained its consistent profitability in 1988 as markets strengthened in response to improved economic activity levels in most industrialized countries.

Novacorp International Consulting Inc., 100% owned, markets the application of specialized products and provides engineering, technical and operations consulting services in the pipeline transportation and petrochemical plant construction industries. Novacorp's capability has been enhanced through project management experience in the engineering and construction of NOVA's petrochemical and Alberta gas transportation facilities. The marketing of specialized products is managed through licensing and joint venture arrangements with external companies.

In 1988, Novacorp continued to provide project management and engineering expertise in Malaysia and Turkey on two of the world's major natural gas pipeline projects. In addition, Novacorp worked on more than 100 consulting and engineering assignments in 22 countries and is bidding and negotiating on other projects around the world.

NOVACORP PROVIDES PROJECT MANAGEMENT SERVICES FOR INTERNATIONAL PROJECTS.

Outlook for 1989

Husky will undertake a rationalization program of its combined Husky/Canterra oil and gas properties to realize greater efficiency and strategic control of core assets. Husky will pursue continued growth in the downstream sector and will increase its participation in international ventures, an objective initiated several years ago and showing promise for 1989.

Novalta Resources will continue to direct its expansion efforts to the enhancement of its natural gas supply capability to serve selected markets, most particularly as a supplier to the Alberta industrial sector, including NOVA's petrochemical operations.

Grove Italia anticipates a continuing recovery in worldwide markets for energy industry products that will allow increased market share and profitability.

Novacorp will focus on further development of petrochemical construction activities, specialized products, and large pipeline developments in North America and targeted international areas.

NOVA welcomes questions from shareholders and potential investors, which may be directed to senior officers or to the Investor Relations Manager by writing or telephoning the Corporation's head office. NOVA's toll-free number, (800) 661-8686, may be used outside of Calgary by callers in Canada and the continental United States.

Literature on the Corporation's business, including the Annual Information Form and the Form 10-K, may be obtained by writing to the head office address or by calling the toll-free number.

Share Issues

At December 31, 1988, and January 31, 1989, approximately 245 million common shares were outstanding. As of January 31, 1989, there were about 38,400 registered shareholders of common shares.

NOVA common shares are listed on the Toronto, Montreal, Alberta and New York stock exchanges. Common shares, which are widely held, are among the most actively traded securities in Canada. In 1988, more than 153 million shares were traded on The Toronto Stock Exchange, representing a total dollar value of about $1.8 billion.

In addition, five preferred share issues were outstanding. These issues are listed on the Toronto, Montreal (7.60% and 9-1/8% only) and Alberta stock exchanges.

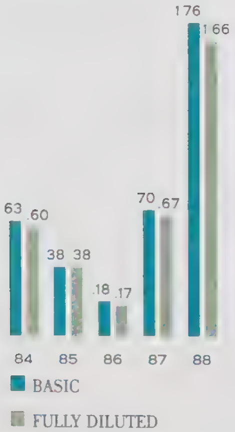
Share Registration

Common shares are transferable at the Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto and Montreal offices of National Trust Company, and the Canadian Imperial Bank of Commerce (New York). Preferred shares are registered with the Montreal Trust Company as follows: in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto and Montreal for all share issues; and in Halifax for 7.60% and 9-1/8% preferred shares only. The 1996 warrants are registered with the Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax offices of Montreal Trust Company.

Net Income Per Common Share for the Year*

(dollars)

*Before extraordinary items



Share Designations

NOVA's share issues are designated in newspaper listings as follows:

Nova		f	Common	
Nova	E	p	7-3/4%	Preferred
Nova	F	p	9-3/4%	Preferred
Nova	G	p	9.76%	Preferred
Nova	H	p	7.60%	Preferred
Nova	O	p	9-1/8%	Preferred
Nova	W		1996	Warrants

Dividend Reinvestment Plan

NOVA's dividend reinvestment and share purchase plan provides a convenient method for shareholders to acquire common shares by reinvesting dividends on all or some of their NOVA common and preferred shares at the weighted average of the selling price of common shares on The Toronto Stock Exchange for the five trading days prior to the dividend payment date. The plan also allows shareholders to make cash payments of $50 to $5,000 per quarter to buy common shares at the same average price.

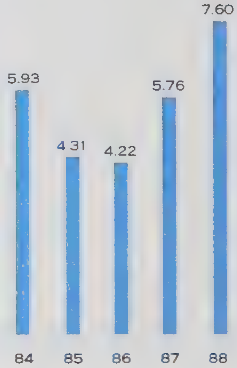
Both options are offered to shareholders without brokerage or administrative fees. The plan is not available to residents of the United States. Additional information may be obtained from the transfer agent charged with plan administration: National Trust Company, Corporate Trust Services, Suite 1008, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 3B2. Information may also be obtained from NOVA's Investor Relations Manager.

Foreign Investors

Dividends paid to shareholders outside of Canada are subject to Canadian non-resident withholding tax, generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply and 25% for non-tax treaty countries.

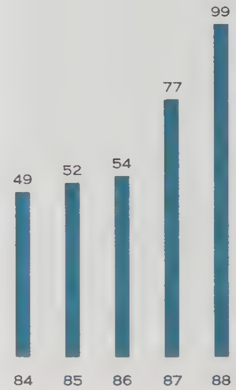
Shareholders' Equity Per Common Share at Year End

(dollars)



Common Share Dividends for the Year

(millions of dollars)



The following discussion and analysis of financial condition and results of operations of the Corporation for the three years ended December 31, 1988, should be read in conjunction with the consolidated financial statements and related notes in this annual report.

NOVA has three core business operations—petrochemicals, pipelines and petroleum—and reports its financial statements in five business segments:

Petrochemicals
- production, transportation and marketing activities for various petrochemical products

Pipelines
- transportation of natural gas

Gas Marketing
- marketing of natural gas

Petroleum
- exploration, development, production, refining, processing and marketing activities for crude oil, natural gas, natural gas liquids and sulphur

Other Businesses
- design, development, manufacture and marketing of various products, primarily for use in the resource and transportation industries, and the marketing of consulting activities related to NOVA's core businesses

The Corporation's income and cash flow within the pipeline segment and a substantial portion of Alberta-based petrochemical operations are generated from cost-of-service operations. These cost-of-service operations provide for recovery of all costs and a specified rate of return on investment. The Corporation's income and cash flow from non-cost-of-service operations are dependent upon petrochemical and energy commodity demand and pricing in a global market environment. Information on the cost-of-service/non-cost-of-service activities is provided in Note 18(c) to the consolidated financial statements and on page 62 of this report.

Results of Operations

The year 1988 was a record year for NOVA.

The acquisition of Polysar Energy & Chemical Corporation and the continued strong demand for petrochemical products resulted in NOVA reporting the highest level of net income and earnings per common share in the history of the Corporation. NOVA anticipates further improvement in 1989, reflecting a full year's impact of Polysar's operations, continued strong product demand and profit margins in the petrochemical business and improved cost-of-service earnings due to growth in its Alberta pipeline investment. (The term "Polysar" used herein refers to Polysar Energy & Chemical Corporation or Polysar Limited and its subsidiaries as the context may require.)

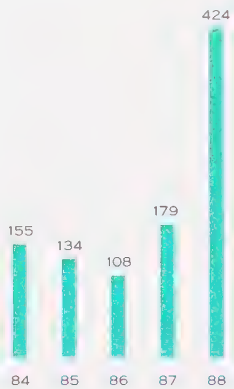
Consolidated Net Income

1988 Compared to 1987

Consolidated net income in 1988 was $424 million compared with consolidated net income of $179 million in 1987. Net income applicable to common shares amounted to $402 million in 1988 compared with $130 million in 1987. On a per common share basis earnings were $1.76 basic and $1.66 fully diluted in 1988 compared with 70 cents basic and 67 cents fully diluted in 1987. Basic earnings per common share were calculated based on net income to common shares after provision for preferred share dividend entitlement, using the weighted average common shares outstanding of 229 million in 1988 and 185 million in 1987. The calculation of fully diluted earnings per common share assumes conversion of all outstanding securities, warrants and options which would result in a dilution of net income per common share.

The increase of 44 million in weighted average common shares outstanding was mainly a result of the issuance of 32 million common shares issued as part of the consideration on the acquisition

Consolidated Net Income for the Year*
(millions of dollars)
*Before extraordinary items



of Polysar and the effect from the conversion of the 6-1/2% and 12% Second Preferred Shares and the exercise of 1996 Warrants in 1987. Preferred share dividend entitlement decreased by $27 million in 1988 as a result of the conversion of the 6-1/2% and 12% Second Preferred Shares in 1987 and the redemption of the 15% and the 11.24% First Preferred Shares in August 1987 and May 1988, respectively.

The principal source of the increase in net income in 1988 was from NOVA's petrochemical businesses which have benefited from strong product demand and improved profit margins.

In September, NOVA acquired Polysar, which was accounted for by the purchase method of accounting. The consolidated financial statements for 1988 include the effect of 100% ownership of Polysar from July 1, 1988, the date on which NOVA, for accounting purposes, effectively controlled Polysar. In addition, equity earnings of $29 million from Polysar were recorded for the period prior to July 1, 1988, based on NOVA's ownership during that period. In the third quarter of 1988, NOVA also purchased the 50% portion of Alberta Gas Chemicals Ltd. ("AGCL") not previously owned, thereby assuming 100% ownership of this methanol business.

The return on average common equity in 1988 was 24.5% as compared with 13.3% in 1987.

1987 Compared to 1986

Consolidated net income was $179 million, up from $100 million in 1986. Fully diluted net income per common share, after extraordinary item, was 67 cents compared with 12 cents per common share in 1986. Basic net income per common share was 70 cents on a total of 185 million average common shares outstanding, compared with 12 cents on 135 million average common shares in 1986. The increase in the number of outstanding common shares resulted from conversion of the 6-1/2% and 12% Second Preferred Shares and the exercise of 1996 Warrants as the market price of the common shares increased during 1987.

The largest increase in net income in 1987 was contributed by NOVA's petrochemical businesses which achieved higher sales volumes, reduced operating and manufacturing costs, and improved prices. Cost-of-service income in pipelines and petrochemical operations declined slightly in 1987 due to lower rate bases and reduced returns in some operations. In petroleum, higher crude oil prices in upstream operations were offset by lower margins from downstream operations and lower natural gas prices in 1987.

Business Segments

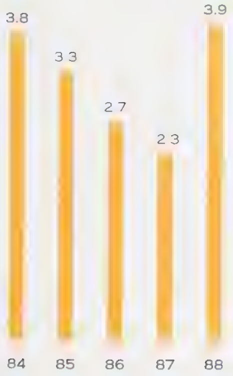
The following information sets forth consolidated operating data by business segment followed by a discussion of significant trends and developments in each business segment.

			(millions of dollars)
	1988	1987	1986
Revenue			
Petrochemicals	**$2,472**	$1,021	$ 725
Pipelines	**627**	623	644
Gas Marketing	**832**	675	724
Petroleum	**29**	28	620*
Other Businesses	**112**	125	112
	4,072	2,472	2,825

	1988	1987	1986
			(millions of dollars)
Less intersegment revenue			
Pipelines	**$ 121**	$ 131	$ 124
Gas Marketing	**1**	11	9
Petroleum	**9**	8	11
	131	150	144
	$3,941	$2,322	$2,681
Operating Income			
Petrochemicals	**$ 681**	$ 203	$ 73
Pipelines	**286**	316	336
Gas Marketing	**5**	4	3
Petroleum	**1**	—	163*
Other Businesses	**5**	5	(2)
	$ 978	$ 528	$ 573
Equity in Earnings (Losses) of Affiliates			
Petrochemicals	**$ 41**	$ 3	$ (3)
Petroleum	**7**	22	2
Other Businesses	**(1)**	(12)	(14)
	$ 47	$ 13	$ (15)

* Includes consolidation of Husky for 11 months of 1986.

Consolidated Revenue for the Year
(billions of dollars)



Petrochemicals
1988 Compared to 1987

Revenue of $2.5 billion for 1988 was more than double the revenue amount for 1987. The substantial increase in revenue reflects principally the initial consolidation of Polysar and AGCL which added about $1.2 billion to NOVA's 1988 consolidated revenue. NOVA's polyethylene business also reported increased revenue as a result of higher sales volume and product selling prices.

Operating income was up $478 million for 1988 compared with 1987. Polysar and AGCL contributed operating income of $300 million for the portion of the year that these investments were consolidated in 1988.

Increased production capabilities and strong market demand for petrochemical products indicate that operating income from petrochemicals will probably remain strong in 1989.

The basic petrochemicals division of Polysar, which was consolidated for six months in 1988, contributed $420 million of revenue and $190 million of operating income to NOVA in 1988. This division had an 18% increase in annual revenue, from $1.1 billion in 1987 to $1.3 billion in 1988, primarily because of higher ethylene and styrene selling prices and record volumes for several products, including ethylene sales volumes which were up 15%. Annual operating income was $377 million, up $242 million from 1987 operating income of $135 million, mainly because of higher ethylene and styrene profit margins. At the same time, lower crude oil prices and the availability of alternative feedstocks significantly reduced operating costs. Industry capacity shortages for basic petrochemicals are expected to continue in 1989.

The polymers division of Polysar, which was consolidated for six months in 1988, contributed revenue of $700 million and net operating income of $75 million to NOVA in 1988. Annual revenue was up slightly from $1.4 billion in 1987 to $1.5 billion in 1988. Annual operating income was $187 million, up 36% compared with 1987 operating income of $138 million, principally because of the strong performance from the polystyrene operations where operating income doubled in 1988. This large increase was due to high industry demand and improved profit margins. Earnings for the rubber operations of the polymers division maintained 1987 levels with the continued strong demand coming principally from the automotive industry. The polymers division's outlook for 1989 is slightly less favourable because of the anticipated softening in the demand for polystyrene and higher feedstock costs.

NOVA's polyethylene business also benefited from the strong demand for petrochemical products. Revenue of $735 million in 1988, up over 50%, generated operating income of over $250 million compared with $70 million in 1987. Production increased by 15% in 1988 over 1987 due to improved product demand and an increase in plant production capacity. Selling prices advanced by over 60% from 1987. The polyethylene operation anticipates higher earnings in 1989 because of market price stability at 1988 selling prices and increased production capacity.

The methanol business, which became a wholly owned operation in the third quarter of 1988, contributed revenue of $90 million and operating income of $35 million to NOVA in 1988. This business had a strong operating performance in 1988. Annual revenue increased from $90 million in 1987 to $193 million in 1988, and annual operating income increased from $10 million in 1987 to $60 million in 1988. Methanol selling prices increased by 44% on average in 1988, and are expected to ease slightly in 1989.

The Alberta ethylene business is conducted under long-term pay in all events supply contracts, which provide for a full recovery of costs plus a specified equity return. This business continued to earn steady returns in 1988, which are expected to continue in 1989. Revenue of $490 million in 1988, was at about the same level as in 1987. Operating income of $115 million in 1988 generated net income of approximately $40 million in 1988. Plans for a third ethylene plant are still under review.

1987 Compared to 1986

Revenue was up $296 million or 41% in 1987, due to increased sales volumes and improved selling prices in NOVA's polyethylene business. At the Joffre polyethylene plant, sales volumes increased by 35% and average selling prices were up 23% compared with 1986. New revenue was contributed from the polyethylene plant near Sarnia, Ontario, which was acquired in mid-February 1987.

Operating income of $203 million was up $130 million in 1987, more than double the amount reported in 1986. The polyethylene business contributed to most of this increase with higher sales volume and improved selling prices combined with reduced operating and manufacturing costs.

The contribution from NOVA's methanol business increased by $6 million over 1986, the result of higher methanol selling prices.

Pipelines

1988 Compared to 1987

The pipeline business reported revenue of $627 million in 1988, about the same level as in 1987. Operating income was $30 million lower in 1988 compared with 1987. The lower operating income resulted primarily from lower billings for income taxes which are a recoverable operating cost and thus have no impact on net income.

Consolidated Operating Income for the Year

(millions of dollars)

The pipeline business, which is regulated by various governmental or regulatory bodies, operates under a cost of service billing arrangement which provides for the recovery of reasonable and necessary operating expenses, depreciation, amortization, income and other taxes, net foreign exchange gains or losses and an assured return on investment in pipeline facilities. Accordingly, the income contribution is entirely dependent on the level of investment and the return on that investment which is subject to approval by regulatory authorities.

The investment in and return on the pipeline business segment for 1988 compared with 1987 is shown in the table below:

	NOVA's Share of Average Investment		Deemed Common Equity Component	After-tax Return on Common Equity		Contribution to Net Income	
	1988	1987		**1988**	1987	**1988**	1987
	(millions of dollars)					(millions of dollars)	
Alberta Gas Transmission Division	**$1,380**	$1,342	32%	**13.25%**	13.25%	**$ 59**	$ 57
Foothills Pipe Lines Phase I	**$ 306**	$ 324	25%	**14.25%**	14.25%	**11**	12
Trans Québec & Maritimes Pipelines	**$ 192**	$ 199	25%	**13.75%**	13.75%	**7**	7
Other						**13**	11
						90	87
Recovery of preferred share carrying costs						**10**	15
						$100	$102

To accommodate shipment of increased gas volumes, the Alberta Gas Transmission Division expects significant pipeline investment over the next five years. Capital investment is estimated at $320 million for 1989 and $300 million in 1990, compared with approximately $250 million in 1988. This significant capital investment program will generate higher earnings in the future from the Alberta Gas Transmission Division. No major capital investment is forecast for Foothills or TQM within the next few years and accordingly the earnings contribution from these pipelines will decline modestly each year as the pipeline investment base is depreciated.

1987 Compared to 1986

Revenue in 1987 was down $21 million from 1986. Lower rates of return and rate bases combined with reduced billings for income taxes and carrying costs related to the capital structure of these cost-of-service operations caused the decline in revenue and the 6% or $20 million decline in operating income in 1987. The lower rates of return and rate bases reduced earnings attributable to common shareholders by about $2 million in 1987.

Gas Marketing

NOVA's gas marketing operations are carried out by Pan-Alberta Gas Ltd., a 50.005% owned subsidiary. Pan-Alberta acts as an agent for gas producers in contracting for the purchase of natural gas throughout Alberta and for the sale of gas to markets outside Alberta. The major role of Pan-Alberta is the development of the United States market for Alberta natural gas which contributes to gas exploration and development and pipeline expansion within Alberta. Neither Pan-Alberta nor NOVA has any take or pay or similar liabilities with respect to natural gas purchases. The purchase contracts permit Pan-Alberta to recover all costs, including a profit margin which varies with the quantities and price of gas sold. Although substantial revenue is reported, the contribution to operating income is relatively small.

1988 Compared to 1987

Revenue in 1988 of $832 million was up by $157 million or 23% from 1987. Natural gas volumes in 1988 of 398 bcf were up 105 bcf or 36% compared with 1987; the increase was primarily because of higher volumes shipped to the United States. The average selling price for natural gas was Cdn. $2.09 per mcf in 1988 compared with Cdn. $2.31 per mcf in 1987.

Operating income was up $1 million in 1988 over 1987.

1987 Compared to 1986

Revenue in 1987 of $675 million was down by $49 million or 7%. Although natural gas volumes increased by 34% the average selling price declined by 30% in 1987.

Operating income was up by $1 million in 1987 over 1986.

Petroleum

1988 Compared to 1987

NOVA's petroleum segment is composed of a 43% equity investment in Husky Oil Ltd. and a wholly owned oil and gas company, Novalta Resources Ltd. The decline in energy prices in 1988 resulted in only a marginal contribution from this business segment.

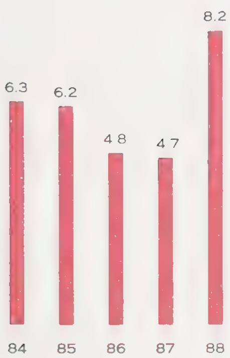
Husky, which is accounted for by the equity method, reported earnings of $1 million in 1988, despite recording a loss on the sale of its remaining semi-submersible drilling rig. The contribution to NOVA's net income, after certain equity accounting adjustments, was about $7 million in 1988 compared with about $11 million in 1987, after non-operating items. Total average gross daily liquids production in 1988 was 48,300 barrels compared with 41,700 in 1987. The main reason for the increase in average gross daily production was the acquisition of Canterra Energy Ltd. in September 1988. Prices for heavy gravity crude oil averaged approximately 42% lower for 1988 compared with 1987, with the price per barrel for heavy gravity crude oil averaging under $10 per barrel for the year. Prices for light and medium gravity crude oil averaged approximately 27% lower for 1988 compared with 1987, with the price per barrel for light and medium gravity crude oil averaging $16.75 per barrel in 1988. The average wellhead price received for natural gas was down slightly in 1988. Downstream margins improved in 1988 over 1987 reflecting lower crude oil costs.

The acquisition of Canterra by Husky cost approximately $375 million. NOVA and other shareholders of Husky provided an aggregate equity contribution of $400 million (with NOVA's portion being $172 million) to finance Husky's acquisition cost of Canterra as well as the payment of certain other obligations in respect of the purchase of Canterra. The acquisition of Canterra more than doubled the oil and gas reserves of Husky.

Sales volumes were up 21% compared with 1987 and resulted in Novalta Resources maintaining its 1987 revenue levels despite the decline in natural gas prices. Operating income increased by $1 million in 1988 compared with 1987.

NOVA expects that the earnings contribution from petroleum will be modest over the near term so long as energy prices remain depressed. In addition, should energy prices decline below those experienced in 1988, the Corporation may be required by accounting standards to record a non-cash write-down of its oil and gas assets as required by the "ceiling test" calculation under the full cost method of accounting. Essentially, the ceiling test calculation is a mathematical formula which determines a ceiling test amount by estimating future net revenues from proved reserves, based on current prices and costs at the reporting date. Any costs carried on the balance sheet in excess of such a ceiling test amount must be charged against income even though the market value of the assets may in fact exceed their book value and the ceiling test amount.

Consolidated Assets at Year End
(billions of dollars)



In accordance with generally accepted accounting principles in both Canada and the United States, the costs and revenues related to a major acquisition, such as the acquisition of Canterra by Husky, can be excluded from the ceiling test calculation for a period of time. This exclusion results from the fact that the evaluation of purchased reserves generally utilizes price forecasts which are higher than the prices required to be used in the ceiling test calculation. The price forecasts used for evaluating Canterra did not differ significantly from a composite of forecasts by several independent petroleum consultants. In fact, the price forecasts were believed to be conservative and produced a per unit value for Canterra's proved reserves which, when compared to recent acquisitions of oil and gas companies by others in the industry, was consistently lower. NOVA believes that the fair value of Canterra's oil and gas properties exceeds their accounting cost base. (See the summary of accounting policies note on plant, property and equipment and Note 19 to the consolidated financial statements.)

1987 Compared to 1986

In 1987, NOVA's investment in Husky contributed $22 million in earnings before non-operating items ($14 million after interest of others in income of subsidiaries). In 1986, NOVA consolidated Husky's accounts for eleven months; included in 1986 revenue and operating income figures were $592 million and $163 million, respectively, related to Husky.

Novalta Resources maintained 1986 revenue levels despite the drop in natural gas prices in 1987 relative to 1986. However, higher depletion charges, the result of increased production, reduced the net contribution.

Other Businesses

1988 Compared to 1987

Other businesses include wholly owned Grove Italia S.p.A., a valve flow control manufacturer in Italy and the United States; Novacorp International Consulting Inc., 100% owned; and a 50% equity investment in Western Star Trucks Inc.

Revenue from other businesses declined slightly in 1988 as compared with 1987, while operating income was maintained at the 1987 level. This is attributable to lower engineering service fees offset by an increase in sales for flow control systems in the oil and gas industry.

Earnings from Western Star were up slightly from 1987. NovAtel Communications Ltd., which was sold in January 1989, reported a reduced loss in 1988 compared with 1987.

1987 Compared to 1986

Revenue of $125 million increased slightly compared with 1986.

NovAtel incurred losses in 1987 and 1986, Western Star recorded a small profit in 1987, compared with a slight loss in 1986. In 1987, NOVA discontinued the business operations of CNG Fuel Systems which incurred losses in 1987 and 1986.

Interest

1988 Compared to 1987

Net interest expense for 1988 of $346 million was up $103 million or 42% over 1987, because of higher levels of outstanding debt arising principally from the Polysar acquisition.

Average interest rates on NOVA's consolidated long-term debt in 1988 were approximately 11% compared with 10.5% in 1987.

1987 Compared to 1986

Net interest expense in 1987 was down 14% compared with 1986, because of lower levels of outstanding debt, which arose principally from the proceeds received in May 1987, on the disposition of a part of the Husky investment, and lower levels of interest rates generally. Average interest rates on NOVA's consolidated long-term debt in 1987 were approximately 10.5% compared with 12.5% in 1986.

Loss on Investments

1988 Compared to 1987

In 1988, NOVA recorded a $2 million gain after income taxes on the sale of investments. In January 1989, the sale of NOVA's 50% interest in NovAtel resulted in a loss of $4 million after income taxes which was reflected at December 31, 1988. Other investments were sold in 1988 for a gain of $6 million after income taxes.

1987 Compared to 1986

In 1987, NOVA recorded a net gain of $10 million on the sale of certain non-strategic investments and recorded a net loss of $4 million on its share of Husky's sale of oil rig supply vessels. In addition, the discontinuance in 1987 of the business of CNG Fuel Systems resulted in a write-down of $22 million.

In 1986, NOVA recorded its share of certain non-operating expenses incurred by affiliates. These consisted of a $23 million loss in Husky, related to write-downs of certain Canadian frontier and international oil and gas properties and a loss on the sale of a semi-submersible drilling vessel, and a loss of $7 million on the sale of a methanol plant in New Zealand.

Income Taxes

1988 Compared to 1987

Income tax expense of $225 million was up $151 million compared with 1987 due to the increased income tax provision for the higher earnings in NOVA's petrochemical businesses and the consolidation of Polysar for six months in 1988.

1987 Compared to 1986

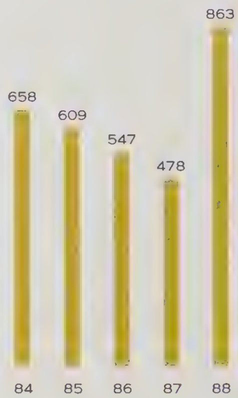
Income tax expense of $74 million was up $12 million compared with 1986 because of the increased income tax provision for the higher earnings in NOVA's petrochemical business as offset by $36 million recorded on the utilization of losses for tax purposes. The 1986 figure includes income taxes of $33 million provided by Husky.

Liquidity and Capital Resources

NOVA's cash requirements are met through internal cash flow from operations together with the issuance of long-term debt and common equity. NOVA has committed credit facilities with five Canadian banks aggregating $1 billion, of which about $840 million was unutilized at December 31, 1988. The credit line

Cash from Operations for the Year

(millions of dollars)



facilities expire between December 1990 and 1993 but may be renegotiated at that time. NOVA may borrow in Canadian or U.S. dollars or other freely available Euro-currencies at interest rates related to Canadian and U.S. prime rates or the London Inter Bank Offered Rate.

In conjunction with the term credit facility established with a syndicate of Canadian chartered banks to fund the Polysar acquisition, NOVA has committed to apply all of Polysar's net income (as adjusted for non-cash items, scheduled debt repayments, interest on the term credit facility and limited capital expenditures) to service the principal repayment obligations under the term credit facility. NOVA is not, however, required to contribute any additional amounts to service principal or interest on the term credit facility which is non-recourse to the Corporation.

At current petrochemical and energy commodity price levels, NOVA believes it will have necessary cash flows to finance its 1989 scheduled debt repayments and capital spending programs and to significantly reduce existing long-term borrowings.

1988 Compared to 1987

Cash flow from operations before changes in non-cash working capital totalled $863 million in 1988 as compared with $478 million in 1987, up $385 million. The improvement has come principally from NOVA's petrochemical operations, of which Polysar contributed about $240 million in the last six months of 1988.

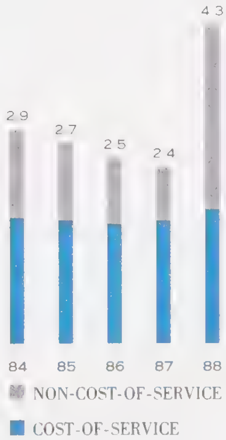
Investment activities resulted in a net cash outflow of $1.5 billion in 1988, compared with a net cash outflow of $147 million in 1987. The net acquisition cost of Polysar and AGCL amounted to $926 million in 1988. Proceeds of $86 million were received on the sale of certain investments. This was offset by cash investment in certain affiliates, including $172 million invested in Husky to partially fund that company's acquisition of Canterra.

Capital expenditures in 1988 were $439 million compared with $200 million in 1987, an increase of $239 million. Additions to pipeline investments, mainly by the Alberta Gas Transmission Division, totalled $242 million. Also in 1988 $145 million was spent in petrochemicals for debottlenecking of existing facilities and plant expansion. Capital expenditures for 1989 are expected to be about $650 million, of which $320 million will be for expansion of the Alberta Gas Transmission Division facilities and $300 million for expansion of petrochemical facilities.

Financing activities in 1988 included the issuance of $384 million in common shares ($372 million relating to the acquisition of Polysar), $1.6 billion of long-term debt and the receipt of $150 million from the issuance of convertible debentures. Repayment of long-term debt amounted to $726 million, and the purchase of preferred shares (both the Corporation's and those of subsidiaries) amounted to $710 million ($591 million relating to the redemption of Polysar preferred shares). Dividends paid to common and preferred shareholders amounted to $121 million compared with $126 million in 1987. In June 1988, the Corporation increased the quarterly dividend paid on its common shares from $0.10 to $0.11 per share.

NOVA's cash position at December 31, 1988, was $102 million compared with $74 million at December 31, 1987, up $28 million. At December 31, 1988, NOVA had consolidated working capital amounting to $393 million compared with $80 million in 1987. NOVA's year-end current ratio, which is the ratio of current assets to current liabilities, was 1.4 for 1988, up from 1.2 in 1987.

Consolidated Long Term Debt*
(billions of dollars)
*Including current portion



The Corporation's long-term debt was \$2.3 billion at the end of 1987. During 1988, the portion of long-term debt related to cost-of-service operations increased by about \$100 million to \$1.7 billion, due to financing requirements for the expansion of the Alberta pipeline system. Cost-of-service operations have billing mechanisms in place that assure the cash flow for repayment of principal and payment of interest on debt. Non-cost-of-service debt, which was about \$700 million at December 31, 1987, increased by \$2.1 billion, as a result of the acquisition of Polysar and AGCL. This increase comprised \$1.3 billion relating to the net acquisition cost of Polysar and AGCL, including the refinancing of various obligations of Polysar, and about \$800 million representing debt previously incurred by these companies, which was added on consolidation. Cash flow from operations to the extent of about \$300 million was applied to reduce non-cost-of-service long-term debt to \$2.5 billion at December 31, 1988.

NOVA's interest coverage ratio in 1988 increased to 2.9 from 2.1 in 1987. The interest coverage ratio is defined as income, before income taxes, interest of others in income of subsidiaries, extraordinary items and long-term debt interest expense, divided by the long-term debt interest expense.

During 1988, the common equity of the Corporation increased to \$2.0 billion from \$1.3 billion in 1987, as a result of earnings retained by the Corporation and the issuance of common shares on the acquisition of Polysar. Common equity per common share at year end increased to \$7.60 per share from \$5.76 per common share at the end of 1987.

1987 Compared to 1986

Cash flow from operations, before changes in non-cash working capital, totalled \$478 million in 1987. After removing the effect of Husky (\$262 million) from the 1986 figure of \$547 million, the 1987 cash flow from ongoing consolidated operations was up \$193 million. This improvement came principally from the petrochemical business.

Investment activities resulted in a net cash outflow of \$147 million in 1987, down \$47 million from 1986. Capital expenditures on plant, property and equipment were down \$126 million, principally as a result of the deconsolidation of Husky, which had capital expenditures of \$173 million in 1986.

In May 1987, NOVA received \$359 million on the completion of the sale of a portion of its investment in Husky. In December 1987, as a result of improved long-term opportunities, NOVA increased its ownership in Husky to about 43% at a cost of \$215 million.

Financing activities in 1987 included the issuance of \$31 million in common shares, \$218 million of long-term debt and the agreement to issue \$150 million of convertible debentures in early 1988. Repayment of long-term debt amounted to \$118 million and the purchase of preferred shares (both the Corporation's and those of subsidiaries) amounted to \$215 million. Dividends paid to common and preferred shareholders of the Corporation amounted to \$126 million compared with \$139 million in 1986.

At December 31, 1987, NOVA had consolidated working capital amounting to \$80 million compared with \$325 million in 1986. Included in working capital at the end of 1986 was \$359 million, representing the anticipated cash proceeds from the sale of a portion of the Husky investment which were received on May 1, 1987.

During 1987, common equity of the Corporation increased to $1.3 billion—almost double the 1986 figure—as a result of the conversion of preferred shares, the exercise of warrants, the issue of the 1987 convertible debentures and improved earnings. Common equity per common share at year end increased to $5.76 from $4.22 at the end of 1986.

Business and Economic Conditions

NOVA's profit performance is influenced by fluctuations in foreign currency exchange rates, interest rates and selling price movements for its petrochemical and energy commodity products.

Petrochemical and Energy Markets

The Corporation's petrochemical and petroleum commodities are sold in highly competitive markets, principally in Canada, the United States, Europe and the Asia-Pacific region. Supply and demand conditions for individual petrochemical and petroleum commodities are subject to significant fluctuations which may have a material impact on prices and margins realized by the Corporation. The accompanying table discloses the Corporation's approximate production in 1988 of major petrochemical and petroleum products.

Approximate 1988 Production

	(millions of pounds except as noted)
Polyethylene	
Linear low-density	870
Low-density	170
High-density	210
Polystyrene	735
Styrene	630
Propylene	720
Ethylene	
Sold under long-term cost-of-service arrangements	2,280
Used internally by NOVA	1,530
Sold at market related prices	470
Methanol (1)	280
Synthetic rubber	1,030
Oil (2)(4)	
Light, Medium	6,440
Heavy	9,320
Gas (3)(4)	48,210
Sulphur (5)	545

(1) Millions of U.S. gallons.
(2) Thousands of barrels, net of royalties, including 100% of Husky.
(3) Millions of cubic feet, net of royalties, including 100% of Husky.
(4) NOVA's share of the production of oil and gas is approximately equal to its petrochemical feedstock requirements on an equivalent unit of volume basis.
(5) Thousands of long tons, net of royalties, including 100% of Husky.

Interest Rates

The Corporation had long-term debt of $4.3 billion at December 31, 1988. Of this amount, interest rates are fixed, directly or indirectly, on approximately $3.5 billion. In addition to its own long-term debt, the Corporation's net income is exposed to interest rate fluctuations with respect to the floating rate indebtedness of its 43% owned affiliate, Husky. Husky had approximately $800 million in floating rate debt at December 31, 1988. Based on the floating rate debt exposure at December 31, 1988, a change in interest rates of 1% is estimated to change the Corporation's cash flow by approximately $8 million and net income by approximately $7 million.

Foreign Currency

NOVA's petrochemical and crude oil businesses are conducted, in part, in an international marketplace environment. Prices for many of the Corporation's petrochemical products and a significant portion of its interest in crude oil revenues are established in terms of the United States dollar. Based on 1988 levels of production and distribution of revenues, an increase in the value of the Canadian dollar in United States dollar terms of one cent Canadian is estimated to decrease the Corporation's cash flow by approximately $9 million and decrease net income by approximately $6 million. A decrease in the value of the Canadian dollar would have the reverse effect.

Other

The effects on net income arising from the differences between accounting principles generally accepted in Canada and the United States are outlined in Note 19 to the consolidated financial statements.

Exchange Rates

	1988	1987	1986	1985	1984
$1.00 U.S.=$Cdn.(1)					
High	**$1.3008**	$1.3797	$1.4465	$1.4070	$1.3358
Low	**1.1843**	1.2951	1.3639	1.3180	1.2441
Average Noon Rate	**1.2307**	1.3260	1.3894	1.3652	1.2948
Year End	**1.1925**	1.2993	1.3805	1.3983	1.3217
$1.00 Cdn=$U.S.(2)					
High	**$ .8444**	$ .7721	$ .7332	$ .7587	$ .8038
Low	**.7688**	.7248	.6913	.7107	.7486
Average Noon Rate	**.8125**	.7541	.7197	.7325	.7723
Year End	**.8386**	.7696	.7244	.7151	.7566

(1) Exchange rate for U.S. dollars in terms of Canadian dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.

(2) Exchange rate for Canadian dollars in terms of U.S. dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management

The management of NOVA Corporation of Alberta is responsible for the preparation and presentation of the consolidated financial statements and related information included in the annual report. The December 31, 1988, consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada consistently applied and have been examined by Clarkson Gordon, independent auditors, whose opinion is included herein.

The preparation of the financial information contained in the annual report, necessarily involves the use of estimates and judgements which have been reached based on a careful assessment of data made available through the Corporation's information systems.

NOVA maintains a system of internal accounting controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. The system is subject to continuous review through a corporate-wide internal audit program with appropriate management follow-up action. Management recognizes the limits that are inherent in all systems of internal accounting control. However, management believes that NOVA has established an effective and responsive system of internal accounting controls, through the careful selection of employees, the division of responsibilities and the application of formal policies and procedures.

Clarkson Gordon, an independent firm of chartered accountants, has been engaged, as approved by a vote of the shareholders at the Corporation's most recent annual general meeting, to examine NOVA's consolidated financial statements in accordance with generally accepted auditing standards and to determine that in their opinion the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of NOVA and its subsidiaries. Clarkson Gordon determine the audit scope, test the accounting records and transactions and perform such other audit procedures as they deem appropriate. Clarkson Gordon's report on the consolidated financial statements appears in the annual report.

NOVA's management believes that the system of internal accounting controls, review procedures and established policies provide reasonable assurance that the Corporation's operations are conducted in conformity with a high standard of business conduct.

S.R. Blair
Chairman and Chief
Executive Officer

W.G. Wilson
Executive Vice President and
Chief Financial Officer

A.T. Poole
Vice President and Controller

Audit Committee

The NOVA Audit Committee reviews and monitors the financial reporting process on behalf of the Board of Directors. The committee, which is composed entirely of directors independent of management, meets periodically to review the Corporation's financial statements and recommends their approval to the Board of Directors. The audit committee also reviews reports prepared by the Corporation's internal and external auditors relating to its accounting policies and procedures as well as its internal controls. The committee reviews the Corporation's annual information reports prepared for Canadian and U.S. security regulators and all prospectuses related to the issue of securities by the Corporation prior to filing with regulatory authorities. The committee reviews with management the accounting policies and procedures employed by the Corporation and related matters of financial disclosure. The committee meets independently with internal auditors and external auditors to review the involvement of each in the financial reporting process and to consider the results of their audits. The audit committee recommends the appointment of the Corporation's external auditors, who are elected annually by the Corporation's shareholders.

P. L. P. Macdonnell

Chairman of the Audit Committee

Auditors' Report

To the Shareholders of
NOVA Corporation of Alberta

We have examined the consolidated balance sheet of NOVA Corporation of Alberta as at December 31, 1988 and 1987, and the consolidated statements of income, reinvested earnings, contributed surplus and cash flows for each of the years in the three year period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and 1987, and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1988, in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
February 9, 1989

(millions of dollars except for per share data)

Year Ended December 31	1988	1987	1986
REVENUE	**$3,941**	$2,322	$2,681
OPERATING COSTS AND EXPENSES			
Operating expenses	**2,709**	1,616	1,815
Depreciation and depletion	**254**	178	293
	2,963	1,794	2,108
OPERATING INCOME	**978**	528	573
OTHER INCOME (DEDUCTIONS)			
Interest expense (Note 8)	**(346)**	(243)	(284)
Allowance for funds used during construction	**6**	2	3
Equity in earnings (losses) of affiliates	**47**	13	(15)
Loss on investments	**(5)**	(18)	(30)
Miscellaneous income and other (deductions)	**(15)**	(13)	(14)
	(313)	(259)	(340)
INCOME BEFORE INCOME TAXES, INTEREST OF OTHERS IN INCOME OF SUBSIDIARIES AND EXTRAORDINARY ITEM	**665**	269	233
Income taxes (Note 14)	**(225)**	(74)	(62)
Interest of others in income of subsidiaries	**(16)**	(16)	(63)
INCOME BEFORE EXTRAORDINARY ITEM	**424**	179	108
Extraordinary item	**–**	—	(8)
NET INCOME (Note 18c)	**424**	179	100
Less preferred share dividend entitlement	**22**	49	84
NET INCOME TO COMMON SHAREHOLDERS	**$ 402**	$ 130	$ 16
AVERAGE COMMON SHARES OUTSTANDING (Millions)	**229**	185	135
NET INCOME PER COMMON SHARE			
Before extraordinary item			
Basic	**$ 1.76**	$ 0.70	$ 0.18
Fully diluted	**$ 1.66**	$ 0.67	$ 0.17
After extraordinary item			
Basic	**$ 1.76**	$ 0.70	$ 0.12
Fully diluted	**$ 1.66**	$ 0.67	$ 0.12

See accompanying summary of accounting policies and notes to consolidated financial statements.

Assets		(millions of dollars)
December 31	**1988**	1987
CURRENT ASSETS		
Cash	**$ 102**	$ 74
Receivables (Note 3)	**868**	414
Inventories (Note 4)	**491**	117
	1,461	605
INVESTMENTS AND OTHER ASSETS (Note 5)	**1,082**	852
PLANT, PROPERTY AND EQUIPMENT (Note 6)	**7,135**	4,456
Less accumulated depreciation and depletion	**1,436**	1,227
	5,699	3,229
	$8,242	$4,686

Liabilities and Common Shareholders' Equity

(millions of dollars)

December 31	1988	1987
CURRENT LIABILITIES		
Bank loans (Note 8)	$ 215	$ 72
Accounts payable and accrued liabilities (Note 7)	768	377
Long term debt instalments due within one year (Note 8)	85	76
	1,068	525
LONG TERM DEBT (Note 8)		
Cost-of-service	1,702	1,638
Non-cost-of-service	2,517	721
	4,219	2,359
OTHER DEFERRED CREDITS (Note 9)	517	156
INTEREST OF OTHERS IN SUBSIDIARIES (Note 10)	248	14
PREFERRED SHARES—REDEEMABLE (Note 11)	216	329
CONVERTIBLE DEBENTURES AND COMMON SHAREHOLDERS' EQUITY		
Convertible debentures (Note 12)	150	150
Common shareholders' equity		
Common shares and warrants (Note 13)	1,158	775
Cumulative translation adjustment	11	21
Reinvested earnings	655	357
	1,974	1,303
CONTINGENCIES AND COMMITMENTS (Note 17)		
	$8,242	$4,686

On behalf of the Board:

J R Blair, Director

W G Wilson, Director

See accompanying summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

(millions of dollars)

Year Ended December 31	1988	1987	1986
BEGINNING OF YEAR	**$ 357**	$ 77	$ 116
Net income	**424**	179	100
Loss on preferred shares redeemed or purchased for cancellation	**(5)**	–	–
Transfer from contributed surplus*	–	227	–
	776	483	216
Less dividends			
Preferred shares	**22**	49	84
Common shares	**99**	77	55
	121	126	139
END OF YEAR	**$ 655**	$ 357	$ 77

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(millions of dollars)

Year Ended December 31	1988	1987	1986
BEGINNING OF YEAR	$ –	$ 228	$ 228
Gain (loss) on preferred shares redeemed or purchased for cancellation	–	(1)	2
Warrants issue expenses less income taxes	–	–	(2)
Transfer to reinvested earnings*	–	(227)	–
END OF YEAR	$ –	$ –	$ 228

*In 1987, pursuant to a resolution of its Board of Directors and in conjunction with the reorganization of its share capital, the Corporation transferred the balance in the contributed surplus account to reinvested earnings.

See accompanying summary of accounting policies and notes to consolidated financial statements.

(millions of dollars)			
Year Ended December 31	**1988**	1987	1986
OPERATING ACTIVITIES			
Income before extraordinary item	**$ 424**	$ 179	$ 108
Depreciation and depletion	**254**	178	293
Deferred income taxes	**201**	67	35
Interest of others in income of subsidiaries	**16**	16	63
Equity in (earnings) losses of affiliates	**(47)**	(13)	15
Loss on investments	**5**	18	30
Other	**10**	33	3
From operations	**863**	478	547
Changes in non-cash working capital (Note 15)	**(25)**	(82)	(19)
	838	396	528
INVESTMENT ACTIVITIES			
Proceeds on sale of investments	**86**	359	158
Plant, property and equipment additions	**(439)**	(200)	(326)
Purchase of affiliates (Notes 1 and 5)	**(926)**	(72)	—
Purchase of the interest of others in subsidiary	**—**	(215)	—
Other assets and long term investments	**(174)**	(27)	(41)
Changes in non-cash working capital (Note 15)	**(10)**	8	15
	(1,463)	(147)	(194)
FINANCING ACTIVITIES			
Common shares issued	**384**	31	26
Warrants issued	**—**	—	72
Convertible debentures issued (Note 12)	**150**	—	—
Long term debt additions	**1,646**	218	100
Bank indebtedness and long term debt repaid	**(726)**	(118)	(328)
Preferred shares of subsidiaries redeemed	**(591)**	(136)	(29)
Preferred shares purchased for cancellation	**(119)**	(79)	(16)
Dividends—to shareholders of the Corporation	**(121)**	(126)	(139)
—to other shareholders of partially owned subsidiaries	**(15)**	(8)	(18)
Changes in non-cash working capital (Note 15)	**45**	(5)	1
	653	(223)	(331)
INCREASE IN CASH	**28**	26	3
CASH AT BEGINNING OF YEAR	**74**	48	45
CASH AT END OF YEAR	**$ 102**	$ 74	$ 48

See accompanying summary of accounting policies and notes to consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. All dollar figures used in the consolidated financial statements are reported in Canadian dollars unless otherwise indicated. The significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of NOVA Corporation of Alberta (the "Corporation" or "NOVA"), its subsidiaries and the proportionate share of assets, liabilities, revenues and expenses of certain of its pipeline investments.

Cost-of-service

Pipeline and some petrochemical operations are subject to cost-of-service agreements. Such agreements, as approved by governmental or regulatory bodies, provide for the recovery of reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, net foreign exchange gains and losses in respect of debt service and an assured rate of return on investment.

Foreign currency translation

Foreign operations which are considered financially and operationally independent have been translated to Canadian dollars using the year-end rate of exchange (the "current rate") for assets and liabilities and average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of common shareholders' equity (the "Cumulative Translation Adjustment" account) until there is a realized reduction of the investment in the foreign operation.

Unless specifically hedged, foreign denominated long term monetary items (principally long term debt) of Canadian operations are translated at the current rate of exchange. For foreign denominated long term monetary items of cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction or addition in the associated long term monetary item. The unrealized translation gains or losses related to non-cost-of-service operations are deferred and are amortized over the remaining lives of the long term monetary items.

Inventories

Inventories are carried at the lower of cost determined on a first-in, first-out basis and net realizable value.

Investments

The Corporation accounts for its investments in affiliates and certain joint ventures by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings less the amortization of the excess of the purchase price over the net book value at date of acquisition. Notes receivable and other investments are carried at cost.

Plant, property and equipment

Plant, property and equipment are carried at cost and additions include related financing costs during major plant construction.

The Corporation's investments in petroleum are accounted for under the full cost method of accounting whereby all costs of acquiring properties, exploring for and developing oil, natural gas and sulphur and related reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, drilling both productive and non-productive wells, and overhead expenses. The net carrying amount of each cost centre is limited to a ceiling test amount which is the estimated future net revenues from proved reserves, based on either current or average prices and year-end costs, plus unproved properties at cost less an allowance for impairment. The total capitalized costs less depletion and depreciation and deferred income taxes of all cost centres are further limited to the aggregate estimated future net revenues for all cost centres less recurring general and administrative costs, future financing costs and income taxes. Any amounts in excess of these limits are charged to income except when the deficiency results from the inclusion of costs and revenues related to a significant acquisition of proved oil and gas reserves and where the price assumptions used in determining the purchase price are higher than the prices used in the ceiling test. In such cases no charge to income is made for a period of 24 months from the date of acquisition.

Depreciation and depletion

Plant and equipment are depreciated at annual rates varying from 2% to 33% which rates are designed to write these assets off over their estimated useful lives.

For oil and natural gas operations, depletion and depreciation are provided on the unit of production method based on gross proved reserves in each cost centre. Reserves are converted to equivalent units on the basis of approximate relative energy content. Costs of acquiring and evaluating unproved properties are excluded from the calculation of depletion and depreciation until it is determined that proved reserves are attributable to the properties or that impairment has occurred.

Allowance for funds used during construction

For pipeline and some petrochemical operations, a return on capital invested in new plant while under construction, which is recoverable from customers, has been included in income.

Income taxes

The deferral method of tax allocation accounting is followed in respect of all income except for pipeline and some petrochemical operations which are subject to cost-of-service agreements. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess of depreciation and depletion provided in the accounts. The agreements for certain cost-of-service operations provide for the recovery of income taxes on the taxes payable method. The income tax provision recorded for these operations represents only the income taxes deemed to be currently payable and recoverable under the billing mechanism in place. Investment tax credits are recorded as a reduction in the cost of the related asset.

Pension plans

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered in all operations except for those which are subject to cost-of-service agreements. The cost of pension benefits reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and the age at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions, are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a 4 year moving average of pension plan asset market values.

The agreements for certain cost-of-service operations provide for the recovery of pension costs on the basis of cash contributions. The pension expense represents only contributions made to the pension plans during the year and therefore recoverable under the billing mechanism in place.

Net income per common share

Basic net income per common share is calculated using the weighted average number of common shares outstanding during the respective year and after provision for preferred share dividend entitlement. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities and exercise of all common share purchase warrants or options if such action would result in dilution of income per common share.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

NOTE 1

Acquisition of Affiliates

ACQUISITION OF POLYSAR ENERGY & CHEMICAL CORPORATION

On September 7, 1988, NOVA completed the acquisition of Polysar Energy & Chemical Corporation and thereby acquired the petrochemical operations carried on by its wholly-owned subsidiary, Polysar Limited. The term "Polysar" used herein refers to Polysar Energy & Chemical Corporation or Polysar Limited and its subsidiaries as the context may require. The acquisition, which was agreed to in principle on June 15, 1988, was completed pursuant to a plan of arrangement which was approved by the Polysar shareholders on August 31, 1988, and by the Supreme Court of Ontario on September 2, 1988.

The acquisition of Polysar has been accounted for by the purchase method and NOVA's consolidated financial statements for the period ended December 31, 1988, include the effect of 100% ownership of Polysar from July 1, 1988, the approximate date from which NOVA, for accounting purposes, effectively controlled Polysar. In addition, NOVA has recorded equity earnings in Polysar from the period prior to July 1, 1988, based on its ownership during that period. The financing for the acquisition is discussed in Note 8.

The net assets of Polysar at assigned values, and details of the consideration paid for Polysar are as follows:

	(millions of dollars)
Plant, property and equipment	$2,266
Working capital	353
Investments and other assets	606
	3,225
Long term debt	(806)
Deferred income taxes	(125)
Interest of others in subsidiaries	(279)
Preferred shares	(591)
	$1,424
Consideration on September 7, 1988	
Cash	$ 925
Common shares of NOVA	372
	1,297
Other net investment items	127
	$1,424

The following table provides the cash flow statement impact of the Polysar acquisition:

	(millions of dollars)
Total consideration	$1,424
Less:	
Cash outlay in 1987	72
Cash received on sale of Canterra securities held by Polysar	408
Other items	53
	$ 891

The following table summarizes the unaudited pro forma condensed consolidated results of operations of NOVA as if the acquisition of Polysar had taken place at the beginning of the respective periods. The results are not necessarily indicative of what would have occurred had the Polysar acquisition been consummated as of January 1, 1987 or 1988, or of future operations of the combined companies. The results are based on the purchase accounting adjustments recognized in consolidating Polysar and reflect the consideration as if it were outstanding from the beginning of each period.

(millions of dollars except for per share data)

	Year Ended December 31	
	1988	1987
Revenue	**$5,178**	$4,425
Operating income	**$1,255**	$ 760
Net income	**$ 503**	$ 204
Net income per common share		
Basic	**$ 1.96**	$ 0.71
Fully diluted	**$ 1.86**	$ 0.68

ACQUISITION OF ALBERTA GAS CHEMICALS LTD.

NOVA acquired the common and preferred shares of Alberta Gas Chemicals Ltd. ("AGCL") not previously owned by NOVA, for a total cash consideration of $40 million. As a result of this transaction, AGCL became a wholly owned subsidiary of NOVA (previously 50 percent owned). The acquisition of AGCL has been accounted for by the purchase method and NOVA's consolidated financial statements for the period ended December 31, 1988 include the results of AGCL from August 1, 1988. The acquisition of AGCL was financed through existing long term lines of credit.

NOTE 2

Proportionate Consolidation of Certain of the Corporation's Investments

The Corporation has proportionately consolidated certain of its pipeline investments. Prior to July 1, 1988, the Corporation also proportionately consolidated certain petrochemical investments; however, with the acquisition of Polysar these investments were no longer considered material to the petrochemicals segment and accordingly the method of accounting was changed to the equity method. The components of the Corporation's consolidated balance sheet and consolidated statement of income relating to its share of the activities of these investments are shown below:

(millions of dollars)

	December 31		Year Ended December 31	
	Assets	Liabilities	Revenue	Operating Costs and Expenses
1988	**$664**	**$477**	**$154**	**$57**
1987	835	566	198	98
1986	848	569	204	99

NOTE 3

Receivables

(millions of dollars)

	December 31	
	1988	1987
Trade	**$674**	$332
Other	**205**	83
Less allowance for doubtful accounts	**(11)**	(1)
	$868	$414

NOTE 4

Inventories

(millions of dollars)

	December 31	
	1988	1987
Materials and supplies	**$ 93**	$ 53
Raw materials	**166**	22
Work in process	**25**	12
Finished goods	**207**	30
	$491	$117

NOTE 5

Investments and Other Assets

(millions of dollars)

	December 31	
	1988	1987
Husky Oil Ltd. (43% owned)	**$ 748**	$581
Polysar Energy & Chemical Corporation (Note 1)	**—**	72
Petrochemical investments	**105**	13
Other assets	**61**	186
Investments held for sale	**168**	—
	$1,082	$852

In September 1988 Husky Oil Ltd. ("Husky"), pursuant to an agreement with NOVA, acquired NOVA's direct 12.2% interest and Polysar's 51% interest in the ordinary shares of Canterra Energy Ltd. ("Canterra") for approximately $230 million. Husky also acquired all of the remaining outstanding ordinary shares of Canterra at a price of $3.00 per share. The total cost to Husky was approximately $375 million. In addition, Husky caused Canterra to redeem on October 12, 1988 all the outstanding Canterra debentures, which were mostly held by Polysar, at par, for $223 million, plus accrued and unpaid interest to the date of redemption.

NOVA and the other shareholders of Husky provided Husky with an aggregate equity contribution of $400 million (with NOVA's portion being $172 million) to finance Husky's obligations in respect of the purchase of Canterra.

The Corporation consolidated the accounts of Husky to November 30, 1986, when its ownership was approximately 56.7%. Thereafter the Corporation's indirect interest (24.4% in 1987 and approximately 43% in 1988) has been accounted for by the equity method.

The following sets out summarized financial information for Husky:

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Current assets	**$ 356**	$ 321	$ 277
Investments and other assets	**20**	19	29
Plant, property and equipment	**3,706**	1,396	1,403
Current liabilities	**(328)**	(227)	(221)
Long term debt	**(1,572)**	(120)	(172)
Deferred foreign exchange	**(24)**	3	6
Deferred income taxes	**(709)**	(334)	(309)
Shareholders' equity	**$1,449**	$1,058	$1,013
Revenue	**$ 604**	$ 572	$ 637
Operating costs and expenses	**(534)**	(450)	(465)
Interest expense	**(26)**	(9)	(7)
Gain (loss) on investments*	**(32)**	9	(183)
Income taxes	**(11)**	(51)	54
Net income	**$ 1**	$ 71	$ 36

*In 1988, Husky recorded a loss of $32 million ($16 million after income taxes) on the sale of its remaining semi-submersible drilling rig; in 1987, Husky recorded a gain of $36 million ($26 million after income taxes) on the sale of investments and a loss of $27 million ($15 million after income taxes) on the sale of its supply vessels; in 1986, Husky incurred a loss of $155 million ($79 million after income taxes) on the write-down of the carrying value of certain Canadian frontier and international oil and gas properties and a loss of $28 million ($16 million after income taxes) on the sale of a semi-submersible drilling rig.

NOTE 6

Plant, Property and Equipment

(millions of dollars)

	December 31			
	1988			1987
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petrochemicals	**$3,736**	**$ 465**	**$3,271**	$ 972
Pipelines	**2,993**	**836**	**2,157**	2,010
Petroleum—full cost method	**274**	**76**	**198**	165
Other	**132**	**59**	**73**	82
	$7,135	**$1,436**	**$5,699**	$3,229

NOTE 7

Accounts Payable and Accrued Liabilities

(millions of dollars)

	December 31	
	1988	1987
Accounts payable		
Trade	**$397**	$233
Other	**84**	13
	481	246
Accrued liabilities		
Interest	**101**	53
Other	**145**	44
	246	97
Income taxes payable	**8**	5
Dividends payable	**33**	29
	$768	$377

NOTE 8

Long Term Debt

(millions of dollars)

		December 31	
	Maturity	**1988**	1987
NOVA Corporation of Alberta			
Unsecured Debentures			
9-3/4% Series 2	1990	**$ 13**	$ 13
9-1/4% Series 3	1990	**11**	11
8% Series 4	1991	**33**	35
8-1/8% Series 5	1992	**24**	26
11-3/8% Series 6	1995	**40**	41
17-3/4% Series 8	1997	**40**	43
12-1/8% Series 9	1993	**100**	100
14% Series 10	1989	**100**	100
12% Series 11	1990	**125**	125
11-1/8% Series 12	1993	**50**	50
11.95% Series 13	2007	**125**	125
10-3/4% Series 14	1999	**100**	—
11.70% Series 15	2008	**150**	—
10% Series B	1996	**100**	100
8-3/4% Series C ($U.S.)	1994	**119**	130
Unsecured Term Notes			
9.65% ($U.S.)	1992	**42**	45
9.95% ($U.S.)	1995	**89**	97
4.7625%—6-1/4% (Swiss Francs)	1992-1996	**140**	179

	Maturity	1988	1987
		(millions of dollars)	
		December 31	
	Maturity	**1988**	1987
Unsecured Bank Loans and Notes*		**$ 158**	$ 273
Less convertible debentures issued in January 1988		**—**	(150)
		1,559	1,343
Exchange differential related to cost-of-service customers		**7**	(18)
		1,566	1,325
Alberta Gas Ethylene			
Ethylene Plant I			
8-1/4% Secured Notes ($U.S.)	1998	**170**	204
Ethylene Plant II			
Secured Loan* ($U.S.)	2004	**247**	286
Secured Notes			
13-3/4% Series A ($U.S.)	2004	**37**	47
9.85% Series B ($U.S.)	2004	**29**	33
Secured Bank Loan*	1991	**7**	4
		490	574
Exchange differential related to cost-of-service customers		**11**	(35)
		501	539
Polysar Acquisition Financing			
Term Credit Facility	1991	**1,095**	—
		1,596	539
Polysar Limited			
Unsecured Loans			
Revolving Credit Facility* ($U.S.)	1989-1996	**251**	—
9.375% Debentures (ECU)	1993	**83**	—
8.25% Debentures ($U.S.)	1991	**38**	—
9% Debentures	1991-1993	**17**	—
Term Loans	1989-1999	**72**	—
11.60% Term Loan	1992-2001	**15**	—
Other Unsecured Loans*	Various	**28**	—
		504	—
Foothills (Yukon)—Phase I			
Secured Loans*	1996	**218**	228
TQM Pipeline			
First Mortgage Bonds			
13.10% Series A	1994	**50**	50
13.20% Series B	2004	**48**	50
11.70% Series C	1990	**43**	43
Secured Loan*	1990	**6**	7
		147	150

(millions of dollars)

		December 31	
	Maturity	**1988**	1987
Other Loans*	Various	**$ 273**	$ 193
		4,304	2,435
Less instalments due within one year		**85**	76
		$4,219	$2,359
Cost-of-service**		**$1,702**	$1,638
Non-cost-of-service		**2,517**	721
		$4,219	$2,359

* The interest rate is a function of generally prevailing money market interest rates, Canadian bank prime rates and London Inter Bank Offered Rates. The composite average interest rate for these loans at December 31, 1988, was approximately 11% (9-1/8% at December 31, 1987). Interest rate exchange agreements have been made on $110 million of Polysar's revolving credit facility to fix the interest rate at approximately 10.5%.

** Long term debt classified as cost-of-service debt represents the debt component of the capital structure for the rate base of the Corporation's pipeline and petrochemical cost-of-service operations. These operations, which are regulated by governmental or regulatory bodies, are subject to agreements under which the billing mechanism includes an assured return to provide for the repayment of such debt and the payment of interest expense. Realized foreign exchange gains or losses on such debt are also for the account of the customer.

In connection with various loans, details of security pledged and other information related to these loans, which are non-recourse to the Corporation, are provided below:

Alberta Gas Ethylene

ETHYLENE PLANT I

The Secured Notes are secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets and by the assignment of certain related contracts.

ETHYLENE PLANT II

This financing is secured by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, charges on related performance guarantees and a first fixed charge on the second ethylene plant and certain related agreements.

Polysar Acquisition Financing

The term credit facility of The Alberta Gas Ethylene Company Ltd. ("Alberta Gas Ethylene"), a wholly owned subsidiary, which was for the acquisition of Polysar by a wholly owned subsidiary of Alberta Gas Ethylene and the redemption by Polysar of its preferred shares and certain floating rate notes, was provided by a syndicate of Canadian chartered banks. The term credit facility bears interest at Canadian prime rate, includes U.S. dollar and bankers acceptance borrowing options, and is to be repaid in full by January 31, 1991. In separate transactions in 1988 a number of interest rate exchange agreements were reached with certain financial institutions which fixed the annual interest rate on approximately $800 million of indebtedness under the term credit facility at an average rate of about 11-3/8% for terms ranging from 12 to 28 months. Quarterly payments under the term credit facility are to be made based on a formula in the loan agreement which requires that, in effect, Alberta Gas Ethylene apply all of Polysar's net income (as adjusted for non-cash items, scheduled debt repayments, interest on the term credit facility and capital expenditures up to $100 million annually) to service the principal repayment obligations under the term credit facility. Alberta Gas Ethylene and the Corporation are not required to contribute any additional amounts to service principal or interest on the term credit facility. The term credit facility is secured by the pledge of the common shares of the wholly owned

subsidiary of Alberta Gas Ethylene established to acquire the outstanding shares of Polysar, but the term credit facility is otherwise non-recourse to Alberta Gas Ethylene and the Corporation. The Corporation has furnished to the banks an undertaking to retain beneficial ownership of at least 51% of the common shares of Alberta Gas Ethylene while the term credit facility is in place.

Foothills (Yukon)—Phase I

This financing is secured by the assignment of the interest of Foothills (Yukon) and three of its subsidiaries in certain agreements and floating charges on their respective properties and assets.

TQM Pipeline

The First Mortgage Bonds and the secured loan are secured by a first fixed and specific charge on the TQM Pipeline system, a pledge, charge and assignment of gas transportation service contracts and gas sales agreements and a floating charge on other property.

Other Loans

Other loans of $273 million at December 31, 1988, ($193 million at December 31, 1987) include loans of $263 million at December 31, 1988 ($166 million at December 31, 1987) which are secured by certain assets and agreements.

Sinking Fund and Repayment Requirements

Sinking fund and repayment requirements in respect of long term debt for the five years following December 31, 1988, are: 1989—$85 million; 1990—$311 million; 1991—$171 million; 1992—$196 million; 1993—$515 million.

Long term debt in the amount of $100 million at December 31, 1988, which the Corporation expects to re-finance in 1989 with long term funding, has been excluded from the long term debt sinking fund and repayment requirements.

Long term debt sinking fund and repayment requirements also exclude amounts related to the Polysar Acquisition Financing. Repayments on this term credit facility are based on Polysar's net income, as adjusted for certain items, and, accordingly, cannot be determined at this time. The Corporation intends to refinance any balance of the term credit facility outstanding on January 31, 1991, on a long term basis.

Current Bank Loans

Current bank loans of $215 million at December 31, 1988, ($72 million at December 31, 1987) include loans of $87 million ($63 million at December 31, 1987) which are secured by certain assets and agreements.

Lines of Credit

At December 31, 1988, the Corporation had committed credit facility agreements with five Canadian banks aggregating $1 billion of which about $840 million was unutilized at December 31, 1988. The credit facilities expire between 1990 and 1993. NOVA may borrow in Canadian or U.S. dollars and other freely available Euro-currencies at interest rates related to Canadian and U.S. prime rates or the London Inter Bank Offered Rate. Certain subsidiaries had unused credit lines of approximately $350 million at December 31, 1988.

Interest Expense

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Interest on long term debt	**$348**	$245	$308
Interest on short term debt	**13**	12	22
Interest capitalized	**—**	(2)	(27)
Interest income	**(15)**	(12)	(19)
	$346	$243	$284

Note 9

Other Deferred Credits

	(millions of dollars)	
	December 31	
	1988	1987
Deferred income taxes	**$469**	$103
Deferred gain	**48**	53
	$517	$156

Deferred income taxes arise from differences of a timing nature between income for accounting purposes and taxable income in the jurisdictions in which the Corporation and its subsidiaries operate. The principal timing difference relates to the deductions for tax purposes, in respect of plant, property and equipment, in excess of amounts currently charged to operations.

In some cost-of-service operations the Corporation recovers in current revenues only taxes payable and not deferred taxes. The unrecorded deferred income taxes at December 31, 1988, amounted to $296 million ($249 million at December 31, 1987).

A gain realized from the sale and leaseback of the Corporation's head office building in 1985 has been deferred and is being credited to income over the term of the lease.

Note 10

Interest of Others in Subsidiaries

	(millions of dollars)	
	December 31	
	1988	1987
Preferred equity		
Petrosar Limited—Class A	**$240**	$ —
Common equity	**8**	14
	$248	$ 14

The Class A redeemable preferred shares of Petrosar Limited, a wholly owned subsidiary of Polysar, bear a cumulative dividend at an annual rate of 1.35% plus 52% of the average of certain Canadian banks' prime rates. These shares are redeemable in the amount of $60 million in 1989 and $180 million in 1990.

Note 11

Preferred Shares—Redeemable

(a) Authorized

Unlimited number of cumulative first, second and junior preferred shares without par value.

100,000,000 subordinated junior preferred shares without par value.

(b) Issued and outstanding

	December 31					
	1988	1987	1986	**1988**	1987	1986
		(number of shares)			(millions of dollars)	
Related to Cost-of-Service Operations						
First preferred shares						
4-3/4% Series C	–	42,071	50,331	**$ –**	$ 4	$ 5
7-3/4%	**635,571**	650,871	677,871	**16**	16	17
9-3/4%	**730,105**	780,573	792,939	**18**	20	20
9.76%	**1,096,952**	1,196,778	1,293,578	**28**	30	32
7.60%	**2,160,166**	2,211,400	2,302,800	**54**	55	58
15%	–	—	2,500,000	**–**	—	62
				116	125	194
Related to Non-Cost-of-Service Operations						
First preferred shares						
11.24%	–	4,000,000	4,000,000	**–**	100	100
9-1/8%	**3,997,700**	3,997,700	4,000,000	**100**	100	100
Second preferred shares						
6-3/8%	–	150,733	166,633	**–**	4	4
6-1/2%	–	—	6,946,004	**–**	—	174
12%	–	—	10,195,170	**–**	—	255
				100	204	633
				$216	$329	$827

(c) Commentary

The following is a summary of material characteristics of the issued and outstanding preferred shares:

Preferred Share Issue	Stock Exchange Symbol	Annual Dividend Per Share	Redemption Features	Sinking Fund and Purchase Fund Requirements (1)
7-3/4%	E	$1.94	at $26.00 per share on or before May 15, 1989, and at reducing amounts thereafter	purchase obligation of $750,000 annually, to the extent the shares are available at a price not in excess of $25.00 per share; the purchase obligation is cumulative to a maximum of $1,500,000
9-3/4%	F	$2.44	at $25.00 per share	purchase 64,000 shares annually at a price not in excess of $25.00 per share by May 15 of each year under a cumulative mandatory sinking fund

Preferred Share Issue	Stock Exchange Symbol	Annual Dividend Per Share	Redemption Features	Sinking Fund and Purchase Fund Requirements (1)
9.76%	G	$2.44	at $25.00 per share	purchase 96,000 shares annually at a price not in excess of $25.00 per share by November 15 of each year under a cumulative mandatory sinking fund
7.60%	H	$1.90	at $25.00 per share	purchase 90,000 shares annually at a price not in excess of $25.00 per share
9-1/8% (2)	O	$2.28	at $25.00 per share on or after February 15, 1990; retractable on February 15, 1995, at $25.00 per share	purchase 3% of the shares outstanding annually, commencing February 16, 1995, at a price not in excess of $25.00 per share

(1) The Corporation must make all reasonable efforts to satisfy the sinking and purchase fund requirements at prices not in excess of the stated price per share plus accrued and unpaid dividends and costs of purchase. In addition to the cumulative mandatory sinking funds, the Corporation may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9-3/4% Preferred Shares and 72,000 9.76% Preferred Shares at par value plus accrued and unpaid dividends.

The redemption requirements are about $7 million a year for the five years following December 31, 1988.

(2) Commencing with the May 15, 1990 quarterly dividend, the dividend payment on the 9-1/8% Preferred Shares will be equal to 70% of the average of the Canadian prime rate for the dividend period.

(d) Purchases

The Corporation purchased for redemption or cancellation 4,409,632 shares in 1988, 3,101,211 shares in 1987 and 681,289 shares in 1986.

NOTE 12

Convertible Debentures

The Convertible Debentures, which are unsecured and mature on February 15, 2008, pay a minimum interest rate of 6-1/4%. They are convertible, at the holder's option until February 15, 2008, into common shares of the Corporation at an initial conversion price of $10.70 per share, subject to adjustment in certain events, which equates to 14,018,692 common shares. The debentures are redeemable at par after February 15, 1993, and at any time prior to this date, at 105% of par if at least 85% of the original principal amount of the debentures has been converted. At December 31, 1987, the Corporation included the proceeds of the Convertible Debenture as a reduction in unsecured bank loans and notes in long term debt.

The Convertible Debentures have been reported under the heading "Convertible Debentures and Common Shareholders' Equity" on the balance sheet. At its option at maturity, the Corporation may issue common shares in respect of the principal amount of the outstanding debentures at then prevailing market prices. The Corporation anticipates that the Convertible Debentures will ultimately be converted into common shares.

NOTE 13

Common Shares and Warrants

(a) Authorized

Unlimited number of voting common shares without par value.

5,000,000 warrants.

(b) Issued and outstanding

	December 31					
	1988	1987	1986	**1988**	1987	1986
	(number of shares and warrants)			(millions of dollars)		
Common Shares	**245,322,668**	211,483,734	141,839,334	**$1,156**	$771	$264
Class "B" Common Shares	—	—	1,717	—	—	—
	245,322,668	211,483,734	141,841,051	**1,156**	771	264
Warrants	**132,025**	254,950	3,942,315	**2**	4	59
				$1,158	$775	$323

(c) Common shares issued

Changes in the common share capital for the three years ended December 31, 1988, are summarized as follows:

(millions of dollars)

	Number of Shares	Common Share Capital
December 31, 1985	130,656,702	$ 205
For cash under the Dividend Reinvestment and Share Purchase Plan	5,141,443	26
On conversion of—		
675,417 6-3/8% Preferred Shares	2,836,751	17
10,221 6-1/2% Preferred Shares	27,665	—
1,100 12% Preferred Shares	3,718	—
On exercise of 1,057,685 Warrants	3,173,055	16
	11,182,632	59
December 31, 1986	141,839,334	264
For cash under the Dividend Reinvestment and Share Purchase Plan	2,475,270	21
On conversion of—		
6,712,368 6-1/2% Preferred Shares	19,617,432	168
10,081,621 12% Preferred Shares	34,993,228	252
On exercise of 3,687,365 Warrants	11,062,095	55
For cash on exercise of stock options (at prices ranging from $4.85 to $8.75)	1,496,375	11
	69,644,400	507

(millions of dollars)

	Number of Shares	Common Share Capital
December 31, 1987	211,483,734	$ 771
For cash under the Dividend Reinvestment and Share Purchase Plan	465,703	5
On exercise of 122,925 Warrants	368,775	2
For purchase of Polysar (Note 1)	31,909,056	372
For purchase of affiliate	50,000	—
For cash on exercise of stock options (at prices ranging from $4.85 to $10.375)	1,045,400	6
	33,838,934	385
December 31, 1988	245,322,668	$1,156

(d) Common shares reserved for future issue

(number of shares)

	December 31	
	1988	1987
Under the Dividend Reinvestment and Share Purchase Plan	**5,629,286**	6,094,909
For exercise of Convertible Debentures	**14,018,692**	—
For exercise of Warrants	**396,075**	764,850
Under the Incentive Stock Option Plan (1982), options are outstanding to officers and employees to purchase 7,278,075 common shares at prices ranging from $4.85 to $11.75 per share (6,644,225 shares at December 31, 1987, at prices ranging from $4.85 to $10.375 per share) with expiration dates between 1989 to 1995, and 2,177,525 common shares are reserved but unallocated (1,199,750 shares at December 31, 1987).	**9,455,600**	7,843,975
	29,499,653	14,703,734

(e) Common share dividends

Common share dividends paid to shareholders of record amounted to $99 million or 42 cents per share in 1988, $77 million or 40 cents per share in 1987 and $55 million or 40 cents per share in 1986.

(f) Warrants

The Warrants were issued in 1986 at a price of $15.00 per Warrant. Each Warrant entitles the holder at his option to obtain on exercise three common shares at any time before July 31, 1996, or either one no par value first preferred share or one no par value second preferred share from August 1, 1991, to July 31, 1996. The Corporation may purchase for cancellation any or all of the Warrants outstanding in the market.

NOTE 14

Income Taxes

For certain pipeline and some petrochemical operations, charges to customers are based on cost-of-service agreements. Since income taxes related to these operations are a component of the charges, the billing for such income taxes on either a taxes payable or tax allocation basis does not affect net income.

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates to income before income taxes, interest of others in income of subsidiaries and extraordinary item as shown in the following table:

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Income before income taxes, interest of others in income of subsidiaries and extraordinary item	**$665**	$269	$233
Add (deduct)			
Cost of service activities			
Petrochemicals	**(57)**	(67)	(72)
Pipelines	**(160)**	(186)	(198)
Equity in losses (earnings) of affiliated companies	**(47)**	(13)	15
Loss on investments	**5**	18	30
	$406	$ 21	$ 8
Effective Canadian tax rate	**47.4%**	50.6%	48.8%
Calculated income tax expense	**$192**	$ 11	$ 4
Add (deduct) adjustments to income taxes resulting from—			
Manufacturing and processing tax credits	**(14)**	—	—
Earnings from foreign subsidiaries with lower effective tax rates	**(15)**	(6)	(3)
Non-allowable depreciation and depletion	**11**	1	12
Utilization of losses for tax purposes	**(14)**	(36)	(35)
Net tax credits on earnings from petroleum operations	**(2)**	(2)	(25)
Other	**(10)**	(4)	(6)
	148	(36)	(53)
Add income taxes billed under cost-of-service contracts	**77**	110	115
Income tax expense	**$225**	$ 74	$ 62
Current income taxes	**$ 24**	$ 7	$ 27
Deferred income taxes	**201**	67	35
	$225	$ 74	$ 62

Deferred income taxes in each of the three years arose from differences of a timing nature between income for accounting purposes and taxable income in the jurisdictions in which the Corporation and its subsidiaries operate. The principal timing difference relates to the deductions for tax purposes, in respect of plant, property and equipment, in excess of amounts currently charged to operations.

In some cost-of-service operations the Corporation recovers in current revenues only taxes payable and not deferred taxes. Accordingly, the above provision for income taxes excludes deferred income taxes of $20 million in 1988, $12 million in 1987 and $13 million in 1986. These deferred income taxes relate principally to the deduction for tax purposes, in respect of plant, property and equipment, in excess of amounts charged to operations.

NOTE 15

Changes in Non-Cash Working Capital

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Funds on deposit	**$ –**	$138	$(138)
Secured bond	**–**	–	158
Receivables	**(454)**	(107)	379
Inventories	**(374)**	(6)	114
Assets held for sale	**–**	359	(359)
Bank loans	**143**	(5)	6
16-1/4% Unsecured debentures	**–**	(138)	138
Bank indebtedness	**–**	–	(155)
Accounts payable and accrued liabilities	**391**	24	(410)
Changes in non-cash working capital	**(294)**	265	(267)
Reclassification and other items not having a cash effect			
Non-cash working capital acquired on purchase of affiliates	**329**	–	–
Estimated cash proceeds on disposition of the Husky investment less the net working capital effect from deconsolidation in 1986	**–**	(359)	295
Other items	**(25)**	15	(31)
Changes in non-cash working capital having a cash effect	**$ 10**	$(79)	$ (3)

These changes relate to the following activities:

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Operating activities	**$ (25)**	$(82)	$ (19)
Investment activities	**(10)**	8	15
Financing activities	**45**	(5)	1
	$ 10	$(79)	$ (3)

NOTE 16

Pension Plans

The Corporation has pension plans covering substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes. Assumed future rates of return on assets of the plans averaged 7% to 8% in 1988 and 7% in 1987. Estimated projected benefit obligations of the plans were determined using discount rates averaging 7% to 8% in 1988 and 7% in 1987 and long term salary and wage escalation rates averaging 6% to 7% in 1988 and 6% in 1987.

Net pension expense consisted of the following:

(millions of dollars)

	Year Ended December 31	
	1988	1987
Current service costs	**$ 15**	$ 11
Interest cost on projected benefit obligations	**19**	8
Estimated return on assets	**(21)**	(9)
Net total of other components	**(1)**	(1)
	12	9
Less amounts recoverable under cost-of-service contracts	**(6)**	(5)
Net pension expense	**$ 6**	$ 4

The status of the pension plans is as follows:

(millions of dollars)

	December 31	
	1988	1987
Estimated obligations		
Projected benefits based on service to date and present remuneration	**$287**	$ 78
Additional amounts related to projected salary and wage increases	**101**	59
Total projected benefit obligations	**388**	137
Assets available at adjusted market value	**441**	158
Excess of assets over projected benefit obligations	**$ 53**	$ 21

NOTE 17

Contingencies and Commitments

(a) The Corporation leases office space, data processing and transportation equipment under various operating leases. The future minimum lease payments, net of recoveries under cost-of-service operations and sub-leases, are approximately $45 million in 1989, $41 million in 1990, $40 million in 1991, $35 million in 1992 and an aggregate of $154 million in subsequent years.

(b) The agreement for the sale and leaseback of the Corporation's head office building provides that, on or after January 1, 1995, the Corporation offer to purchase the property at the expiration of the lease for $157 million.

(c) Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

NOTE 18

Segmented Information

(a) Financial information by business segment

The management of the Corporation has determined that the following are the principal business segments of the Corporation:

Petrochemicals —production, transportation and marketing activities for various petrochemical products.

Pipelines —transportation of natural gas.

Gas Marketing —marketing of natural gas.

Petroleum —exploration, development, production, refining, processing and marketing activities for crude oil, natural gas, natural gas liquids and sulphur.

Other Businesses—design, development, manufacture and marketing of various products, primarily for use in the resource and transportation industries, and the marketing of consulting activities relating to NOVA's core businesses.

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Revenue			
Petrochemicals	**$2,472**	$1,021	$ 725
Pipelines	**627**	623	644
Gas Marketing	**832**	675	724
Petroleum	**29**	28	620
Other Businesses	**112**	125	112
	4,072	2,472	2,825
Less intersegment revenue			
Pipelines	**121**	131	124
Gas Marketing	**1**	11	9
Petroleum	**9**	8	11
	131	150	144
	$3,941	$2,322	$2,681
Operating income (loss)			
Petrochemicals	**$ 681**	$ 203	$ 73
Pipelines	**286**	316	336
Gas Marketing	**5**	4	3
Petroleum	**1**	—	163
Other Businesses	**5**	5	(2)
	$ 978	$ 528	$ 573
Equity in earnings (losses) of affiliates			
Petrochemicals	**$ 41**	$ 3	$ (3)
Petroleum	**7**	22	2
Other Businesses	**(1)**	(12)	(14)
	$ 47	$ 13	$ (15)

	(millions of dollars)		
	Year Ended December 31		
	1988	1987	1986
Identifiable assets			
Petrochemicals	**$4,544**	$1,195	$1,084
Pipelines	**2,247**	2,129	2,142
Gas Marketing	**111**	103	82
Petroleum	**962**	753	884
Other Businesses	**378**	506	571
	$8,242	$4,686	$4,763
Plant, property and equipment additions			
Petrochemicals	**$ 145**	$ 85	$ 61
Pipelines	**242**	85	80
Petroleum	**51**	16	182
Other Businesses	**1**	14	3
	$ 439	$ 200	$ 326
Depreciation and depletion			
Petrochemicals	**$ 135**	$ 62	$ 60
Pipelines	**97**	95	96
Gas Marketing	**1**	1	1
Petroleum	**17**	14	131
Other Businesses	**4**	6	5
	$ 254	$ 178	$ 293

(b) Financial information by geographic area based on location of the manufacturing facilities

	(millions of dollars)		
	Year Ended December 31		
	1988	1987	1986
Revenue			
Canada	**$2,990**	$2,124	$2,533
United States	**638**	119	83
Europe and other	**313**	79	65
	$3,941	$2,322	$2,681
Operating income			
Canada	**$ 884**	$ 511	$ 572
United States	**61**	13	1
Europe and other	**33**	4	—
	$ 978	$ 528	$ 573
Identifiable assets			
Canada	**$7,385**	$4,442	$4,556
United States	**463**	131	86
Europe and other	**394**	113	121
	$8,242	$4,686	$4,763

(c) Financial information on cost-of-service/non-cost-of-service operations

(millions of dollars)

	Year Ended December 31		
	1988	1987	1986
Revenue			
Cost-of-service	**$ 884**	$ 891	$ 903
Non-cost-of-service	**3,057**	1,431	1,778
	$3,941	$2,322	$2,681
Operating income			
Cost-of-service	**$ 393**	$ 439	$ 466
Non-cost-of-service	**585**	89	107
	$ 978	$ 528	$ 573
Contribution to net income			
Cost-of-service			
Operating income	**$ 393**	$ 439	$ 466
Interest expense	**(182)**	(188)	(199)
Allowance for funds used during construction	**6**	2	3
Equity in earnings of affiliates	**3**	—	—
Income taxes	**(77)**	(110)	(115)
	143	143	155
Non-cost-of-service			
Operating income	**585**	89	107
Interest expense	**(164)**	(55)	(85)
Equity earnings (losses) of affiliates	**44**	13	(15)
Loss on investments	**(5)**	(18)	(30)
Miscellaneous income and other (deductions)	**(15)**	(13)	(14)
Income taxes	**(148)**	36	53
Interest of others in income of subsidiaries	**(16)**	(16)	(63)
Extraordinary item	**—**	—	(8)
	281	36	(55)
Net income	**$ 424**	$ 179	$ 100
Identifiable assets			
Cost-of-service	**$2,769**	$2,663	$2,713
Non-cost-of-service	**5,473**	2,023	2,050
	$8,242	$4,686	$4,763
Plant, property and equipment additions			
Cost-of-service	**$ 286**	$ 85	$ 99
Non-cost-of-service	**153**	115	227
	$ 439	$ 200	$ 326

(millions of dollars)			
	Year Ended December 31		
	1988	1987	1986
Depreciation			
Cost-of-service	**$ 143**	$ 143	$ 143
Non-cost-of-service	**111**	35	150
	$ 254	$ 178	$ 293

(d) Export sales

Export sales from the Corporation's Canadian operations amounted to the following:

(millions of dollars)			
	Year Ended December 31		
	1988	1987	1986
United States			
Natural gas	**$ 696**	$ 567	$ 567
Petrochemicals and other products	**520**	272	185
	1,216	839	752
Other	**254**	89	8
	$1,470	$ 928	$ 760

NOTE 19

Reconciliation to Accounting Principles Generally Accepted in the United States of America

The consolidated financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian basis") which parallel accounting principles generally accepted in the United States ("U.S. basis") in most areas. The following reconciliations reflect the differences in these accounting principles, where applicable, as required by the Securities and Exchange Commission in the United States (the "S.E.C.").

(millions of dollars)			
	Year Ended December 31		
	1988	1987	1986
Net income in accordance with the Canadian basis as reported (a)	**$ 424**	$ 179	$ 100
Add (deduct) adjustments for:			
Full cost accounting (b)	**(87)**	(1)	(49)
Foreign currency translation (c)	**67**	(11)	(19)
Disposal of investments (d)	**14**	34	8
Other	**(6)**	—	(7)
Net income in accordance with U.S. basis	**412**	201	33
Less preferred share dividend entitlement	**22**	49	84
Net income (loss) to common shareholders in accordance with U.S. basis	**$ 390**	$ 152	$ (51)
Net income (loss) per common share in accordance with U.S. basis			
—Primary	**$1.61**	$0.81	$(0.36)
—Fully diluted	**$1.61**	$0.78	$(0.36)
Reinvested earnings (deficit) in accordance with U.S. basis (e)	**$ 529**	$ 243	$ (59)

If accounting principles generally accepted in the United States were followed, the effect on the consolidated balance sheet as at December 31 would be as follows:

(millions of dollars)

	1988		1987	
	Canadian Basis	**U.S. Basis**	Canadian Basis	U.S. Basis
Current assets	**$1,461**	**$1,462**	$ 605	$ 609
Investments and other assets	**1,082**	**980**	852	740
Plant, property and equipment	**5,699**	**5,495**	3,229	3,214
	$8,242	**$7,937**	$4,686	$4,563
Current liabilities	**$1,068**	**$1,068**	$ 525	$ 525
Long term debt	**4,219**	**4,219**	2,359	2,359
Other deferred credits	**517**	**335**	156	142
Interest of others in subsidiaries	**248**	**248**	14	13
Preferred shares—redeemable	**216**	**216**	329	329
Convertible debentures	**150**	**150**	150	150
Common shareholders' equity	**1,824**	**1,701**	1,153	1,045
	$8,242	**$7,937**	$4,686	$4,563

(a) United States accounting principles require that the extraordinary item be included in income before extraordinary item.

(b) The full cost accounting adjustment reflects the application of the full cost accounting rules prescribed by the S.E.C. The most significant difference relates to the calculation of the ceiling test amount relative to the limitation of the net carrying amount of each cost centre. Under United States accounting principles the ceiling test amount for each cost centre is calculated by discounting future net revenues from proved reserves at a rate of 10% after tax based on prices in effect at the balance sheet date. Based on oil and gas prices at December 31, 1988, NOVA's carrying value of oil and gas assets, excluding those related to Canterra, exceeded the allowable ceiling under United States accounting standards. The ceiling test deficiency for the year ended December 31, 1988, was $82 million.

The ceiling test calculation at December 31, 1988, for the U.S. basis of accounting excludes the costs and revenues related to the purchased reserves of Canterra. NOVA has been granted a one year exemption by the S.E.C. from including these costs and revenues in the ceiling test calculation. At the end of the one year period NOVA can apply for a continuation of the S.E.C. exemption for an additional year. If the extension is not granted then any deficiency existing at December 31, 1989, would be charged against earnings.

The purchase of the Canterra oil and gas properties reflected fair value and was based on an evaluation of Canterra which utilized price forecasts which did not differ significantly from a composite of forecasts by several independent petroleum consultants. NOVA believes that the fair value of Canterra's oil and gas properties exceed their cost base. If the Canterra purchased reserves and the associated costs and revenues were included in the ceiling test calculation in accordance with United States accounting standards an additional deficiency of about $360 million would have been charged against earnings under the U.S. basis of accounting.

(c) United States accounting principles require that long term debt payable in foreign currencies be translated at the rates of exchange prevailing on the balance sheet date with the resulting translation gains and losses to be included in the determination of net income for the period.

(d) Adjustments to reported net income from the Canadian to the U.S. bases of accounting change the carrying value of certain investments. As a result the amount of the gain or loss on disposal of these investments is different under the two bases of accounting in the particular year in which the transaction occurs.

(e) Reinvested earnings (deficit) in accordance with the U.S. basis of accounting reflects the cumulative effect of adjustments to the Corporation's earnings to December 31, 1988, for significant differences between the Canadian and U.S. bases of accounting.

(f) In 1988, the Financial Accounting Standards Board in the United States issued Statement No. 96 with respect to "Accounting for Income Taxes". The Corporation is reviewing the recommendations contained in this Statement for adoption at the effective date in 1990 but is unable to determine the impact upon its U.S. basis consolidated financial statements at this time.

(g) Note 1 of the consolidated financial statements summarizes the unaudited pro forma results of NOVA as if the acquisition of Polysar had taken place at the beginning of the respective year. The results, based on United States accounting principles, are as follows:

(millions of dollars except for per share data)

	Year Ended December 31	
	1988	1987
Net income in accordance with U.S. basis	**$ 561**	$ 242
Net income to common shareholders in accordance with U.S. basis	**$ 539**	$ 193
Net income per common share in accordance with U.S. basis		
—Primary	**$2.08**	$0.88
—Fully diluted	**$2.08**	$0.84

Underpinning NOVA's businesses and its capital structure are two fundamentally different ways of conducting business and earning income: cost-of-service operations and non-cost-of-service operations. For detailed financial information relating to NOVA's cost-of-service and non-cost-of-service operations, see Note 18(c) to the consolidated financial statements.

NOVA's principal cost-of-service operations are its pipeline businesses and its Joffre, Alberta ethylene operations. These businesses, which are regulated by various governmental or regulatory bodies, operate under billing mechanisms which provide for the recovering of reasonable and necessary operating expenses, costs of feedstock and fuel, depreciation, amortization, income and other taxes, net foreign exchange gains and losses in respect of debt service and an assured rate of return on the investment. For details on NOVA's pipeline investments and return on its pipelines and Joffre ethylene operations, see Petrochemicals and Pipelines in the Financial Review.

In summary, the income contribution is entirely dependent on the level of investment and the return on that investment which is subject to approval by regulatory authorities. In addition, the billing mechanism provides an assured cash flow for repayment of principal and payment of interest on debt incurred to finance the investment base.

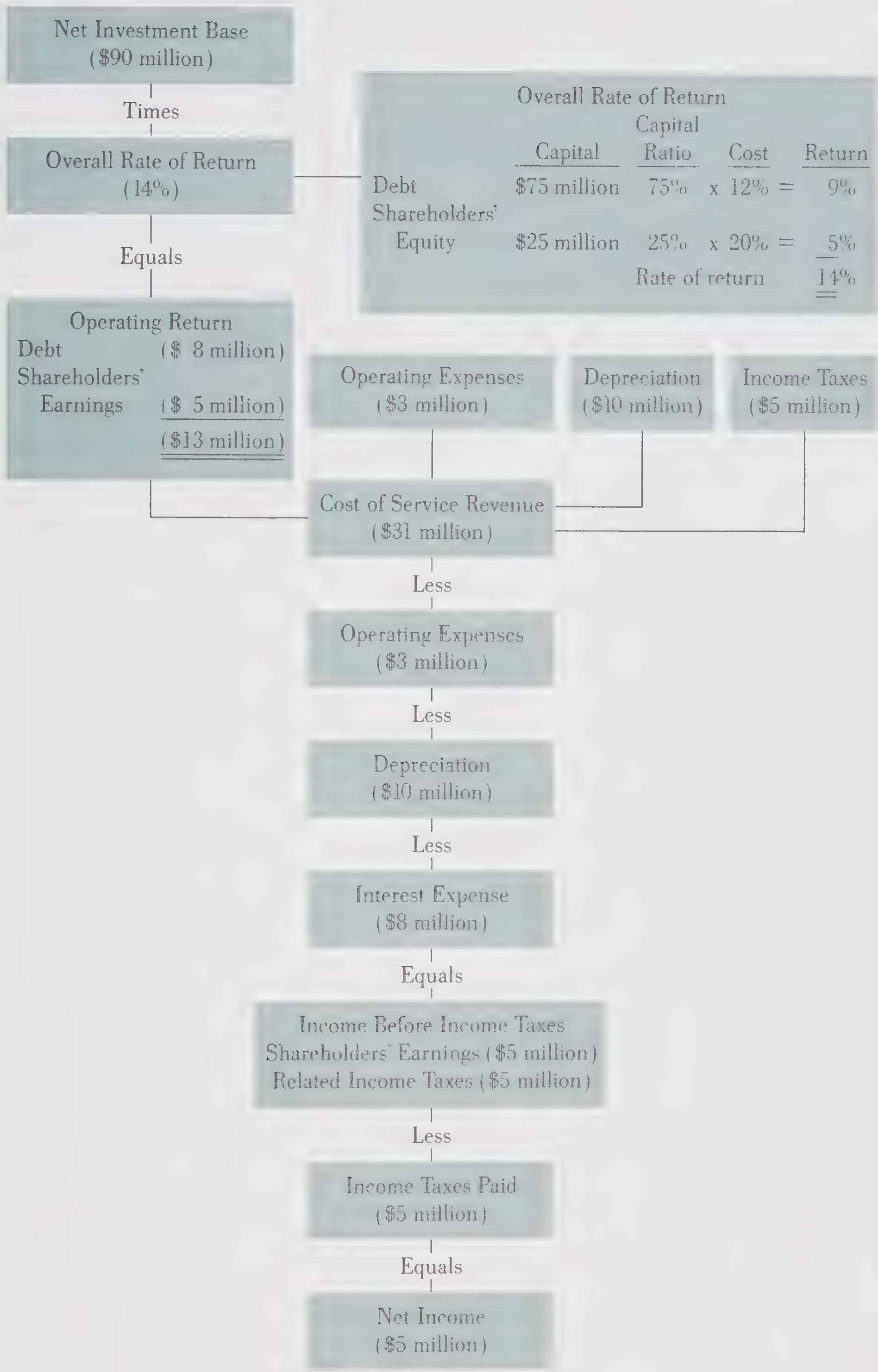
To illustrate how these cost-of-service activities impact the net income of the Corporation, the following example is provided.

The example, which is based on an after tax return to common shareholders of 20%, shows how the shareholders' equity component of the rate of return flows through to the "bottom line" of NOVA's income statement. In determining the cost-of-service connected with these activities, debt and shareholders' equity components are combined and the rate of return percentage determined. This percentage is then applied to the net investment base (similar to total net assets). The result—operating return—is combined with the operating expenses, depreciation and income taxes to yield cost-of-service revenue. The specified deductions are then made to determine net income.

How this works can be shown in a diagram. The numbers used are hypothetical, and the following assumptions are made:

1.	Investment Base	$100 million
2.	Depreciation, based on a 10 year life	$ 10 million
3.	Net Investment Base	$ 90 million
4.	Capital Structure	
	Debt	$ 75 million
	Common Shareholders	$ 25 million
5.	Cost of Debt	12%
6.	Return to Common Shareholders (After Tax)	20%
7.	Operating Expenses	$ 3 million
8.	Income Taxes Paid	$ 5 million

As the illustration shows, cost-of-service provides the necessary revenue to meet all operating expenses, to pay interest on debt, and recover, through depreciation, the original investment in assets. As well, it provides the common shareholders with an appropriate return on their investment.


Net Investment Base
($90 million)
Times
Overall Rate of Return
(14%)
Equals
Operating Return
Debt ($ 8 million)
Shareholders' Earnings ($ 5 million)
($13 million)
Overall Rate of Return
Capital
Capital Ratio
Cost
Return
Debt $75 million 75% x 12% = 9%
Shareholders' Equity $25 million 25% x 20% = 5%
Rate of return 14%
Operating Expenses
($3 million)
Depreciation
($10 million)
Income Taxes
($5 million)
Cost of Service Revenue
($31 million)
Less
Operating Expenses
($3 million)
Less
Depreciation
($10 million)
Less
Interest Expense
($8 million)
Equals
Income Before Income Taxes
Shareholders' Earnings ($5 million)
Related Income Taxes ($5 million)
Less
Income Taxes Paid
($5 million)
Equals
Net Income
($5 million)

Summarized Quarterly Financial Data

(millions of dollars except for share data)

Three months ended	March 31		June 30		September 30		December 31	
	1988	1987	**1988**	1987	**1988**	1987	**1988**	1987
Revenue	**$ 716**	542	**624**	528	**1,238**	585	**1,363**	667
Operating income	**$ 162**	110	**174**	133	**314**	128	**328**	157
Net income	**$ 82**	33	**89**	45	**127**	47	**126**	54
Net income per common share								
Basic	**$0.36**	0.09	**0.39**	0.19	**0.51**	0.20	**0.50**	0.22
Fully diluted	**$0.33**	0.08	**0.37**	0.19	**0.48**	0.20	**0.48**	0.20
Market price per common share								
Toronto Stock Exchange								
High	**$12⅛**	9¼	**14¾**	9½	**14¾**	11½	**12⅞**	11½
Low	**$ 8¾**	5⅝	**9¾**	7¾	**11¼**	9	**10¼**	7
New York Stock Exchange* (U.S. $)								
High	**$ —**	—	**12⅛**	—	**12¼**	—	**10⅝**	—
Low	**$ —**	—	**9½**	—	**9⅜**	—	**8¼**	—
Dividends paid per common share	**$0.10**	0.10	**0.10**	0.10	**0.11**	0.10	**0.11**	0.10

*NOVA was listed on the New York Stock Exchange on June 13, 1988.

Supplementary Oil and Gas Information

The following information has been included to comply with the United States Securities and Exchange Commission regulations and is presented in accordance with the Financial Accounting Standards Board (FASB) Statement 69.

Results of Oil and Gas Operations

(millions of dollars)

Year ended December 31	**1988**	1987	1986
Canada			
Net revenues	**$29**	$28	$244
Deduct			
Production costs	**10**	11	95
Depreciation and depletion	**18**	12	85
Income taxes	**(4)**	(1)	25
Petroleum and gas revenue tax	**—**	—	(25)
	24	22	180
Results of operations from producing activities	**$ 5**	$ 6	$ 64
NOVA's proportionate interest in results of oil and gas operations of equity accounted investee*	**$10**	$15	$ 2

The aforementioned revenues and costs exclude corporate overhead, interest expense and other operating costs which are not directly related to producing activities.

Capitalized Costs

(millions of dollars)

	Year ended December 31	
	1988	1987
Proved oil and gas properties	**$ 248**	$197
Unproved oil and gas properties	**26**	26
	274	223
Less accumulated depreciation and depletion	**76**	58
Net capitalized costs	**$ 198**	$165
NOVA's proportionate interest in net capitalized costs of equity accounted investee*	**$1,432**	$392

Costs Incurred During the Year

	(millions of dollars)		
	Year ended December 31		
	1988	1987	1986
Costs incurred for—			
Property acquisition (unproved)	**$ 5**	$ 4	$ 21
Property acquisition (proved)	**34**	—	—
Exploration	**8**	5	88
Development	**4**	7	32
	$ 51	$16	$141
NOVA's proportionate interest in costs of property acquisition, exploration and development of equity accounted investee*	**$1,064**	$31	$ 11

The costs of acquiring and evaluating significant unproved oil and gas properties are excluded from costs subject to depletion and depreciation until it is determined that proved oil and gas reserves are attributable to such properties. Withheld costs as at December 31, 1988 are as follows:

	(millions of dollars)
Withheld costs—Canada	$ 26
NOVA's proportionate interest in withheld costs incurred by equity accounted investee* at December 31, 1988	
Canada	$234
International	8
	$242

Estimated Quantities of Proved Oil and Gas Reserves

Crude oil, including natural gas liquids, is expressed in thousands of barrels. A barrel represents a stock tank barrel equivalent to 42 U.S. gallons or 35 Imperial gallons. Natural gas is expressed in millions of cubic feet measured at 60°F and 14.65 psia.

Volumes represent the net reserves owned by NOVA after deduction of royalties, reversionary interests, and net profit interests owned by others.

Proved developed and undeveloped reserves	Oil	Gas
	(mbbls)	(mmcf)
At January 1, 1986	119,891	579,976
Revisions of previous estimate	(17,882)	(125,094)
Improved recovery	1,233	2,485
Extensions and discoveries	3,578	42,743
Production	(14,407)	(27,384)
Deconsolidation of subsidiary	(89,154)	(272,168)
At December 31, 1986	3,259	200,558
Revisions of previous estimate	62	15,186
Extensions and discoveries	79	12,994
Production	(242)	(11,062)
At December 31, 1987	3,158	217,676

	Oil	Gas
	(mbbls)	(mmcf)
At December 31, 1987	3,158	217,676
Revisions of previous estimate	(909)	(23,304)
Extensions and discoveries	424	25,380
Purchases of minerals in place	—	34,537
Production	(242)	(13,660)
At December 31, 1988	2,431	240,629
Proved developed reserves		
December 31, 1986	2,543	149,153
December 31, 1987	2,414	152,387
December 31, 1988	1,860	168,582
NOVA's proportionate interest in proved reserves of equity accounted investee*		
1987	36,252	137,228
1988	71,273	471,947

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following future net revenue information should be interpreted with considerable caution for the following reasons:

1. Actual future cash flows will differ from future net cash flows presented in that:
   (a) Future cash flows will be derived not only from proved reserves but also from probable and potential reserves which may ultimately become proved.
   (b) Future, rather than current year, costs and prices will apply.
   (c) Future economic, regulatory and operating conditions are subject to change.
2. The increase in present value does not represent cash available to NOVA. Actual cash flows will be realized over the producing life of the reserves.
3. The effect of income taxes does not consider other corporate investments and as such represents a stand-alone impact which may be overstated.

Therefore the information presented should not be construed as being the fair value of NOVA's oil and gas reserves.

		(millions of dollars)	
Future net cash flow estimated as at December 31	**1988**	1987	1986
Future cash inflows	**$524**	$536	$509
Future costs			
Future production and development costs	**289**	284	290
Future income taxes	**13**	33	13
Future net cash flows	**222**	219	206
Deduct: 10% annual discount factor	**87**	94	81
Standardized measure of discounted future net cash flows	**$135**	$125	$125
NOVA's proportionate interest in standardized measure of discounted future net cash flows related to proved reserves of equity accounted investee*	**$480**	$190	$121

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

(millions of dollars)	1988	1987	1986
Future discounted net cash flows beginning of year	**$125**	$125	$1,103
Increase (decrease)			
Sales and transfers, net of production costs and revenue taxes	**(19)**	(18)	(201)
Current and future development costs incurred	**3**	4	51
Net change in sales and transfer prices, net of development and production costs	**(16)**	8	(1,004)
Extensions, discoveries and improved recovery, net of related costs	**13**	7	60
Revisions of quantity estimates	**(15)**	10	(157)
Purchases of reserves in place	**29**	—	—
Accretion of discount	**13**	12	178
Net change in income taxes	**16**	(8)	487
Net change in revenue tax	—	—	103
Deconsolidation of subsidiary*	—	—	(497)
Changes in production rates (timing) and other	**(14)**	(15)	2
End of year	**$135**	$125	$ 125

Future net cash flows were computed using year-end prices and costs and year-end statutory tax rates (adjusted for permanent differences) that relate to existing proved oil and gas reserves in which NOVA has an interest.

*On December 1, 1986, NOVA agreed to sell 57% of its investment in Husky Oil Ltd., reducing NOVA's interest in Husky to 24.4%. As a result of this transaction NOVA deconsolidated its investment in Husky on December 1, 1986. On December 31, 1987, NOVA increased its interest in Husky to about 43%. NOVA continues to account for this investment using the equity method. The 1988 figures include the effect of Husky's acquisition of Canterra.

(millions of dollars, except for common share amounts)

		1988	1987	1986[1]	1985	1984
Operating Results						
Revenue	$	**3,941**	2,322	2,681	3,347	3,793
Operating income	$	**978**	528	573	674	677
Income before extraordinary items	$	**424**	179	108	134	155
Net income (loss)	$	**424**	179	100	(82)	203
Net income (loss) to common shareholders	$	**402**	130	16	(168)	125
Total Assets	$	**8,242**	4,686	4,763	6,218	6,343
Capitalization						
Long term debt—cost-of-service	$	**1,745**	1,675	1,648	1,686	1,736
—non-cost-of-service	$	**2,559**	760	813	1,018	1,165
Preferred shares—cost-of-service	$	**116**	125	194	205	212
—non-cost-of-service	$	**100**	204	633	657	568
Common equity [2]	$	**1,974**	1,303	649	563	743
Total capitalization	$	**6,494**	4,067	3,937	4,129	4,424
Cash Flow Data						
From operations	$	**863**	478	547	609	658
Spending on plant, property and equipment	$	**439**	200	326	387	624
Capital issued—long term debt	$	**1,646**	218	100	124	411
—common and preferred equity	$	**534**[2]	31	98[2]	125	24
Dividends paid—preferred shareholders	$	**22**	49	84	87	78
—common shareholders	$	**99**	77	55	51	50
Common Share Statistics						
Net income (loss) per share						
—Basic	$	**1.76**	0.70	0.12	(1.31)	1.02
—Fully diluted	$	**1.66**	0.67	0.12	(1.31)	0.77
Dividends paid per share	$	**0.42**	0.40	0.40	0.40	0.40
Outstanding—year end (millions)		**245**	211	142	131	125
—average (millions)		**229**	185	135	128	123
Common equity per share at year end	$	**7.60**[3]	5.76[3]	4.22[3]	4.31	5.93
Market prices (TSE)—high-low		**$14¾-8¾**	11½-5⅝	7¼-4.35	7⅝-5½	8⅛-6⅜
Ratios						
Common shareholder						
Return on average common equity	%	**24.5**	13.3	2.7	*	18.1
Dividend payout	%	**24.6**	59.3	*	*	39.4
Dividend yield (year-end market price)	%	**3.5**	4.0	6.8	5.6	5.6
Capital						
Long term debt to common equity		**2.2:1**	1.9:1	3.8:1	4.8:1	3.9:1
Interest coverage		**2.9x**	2.1x	2.1x	2.1x	1.7x
Net Income (loss) in Accordance with U.S. Accounting Principles						
Net Income (loss)	$	**412**	201	33	(122)	204
Net Income (loss) to common shareholders	$	**390**	152	(51)	(207)	126
Net Income (loss) per common share						
—Primary	$	**1.61**	0.81	(0.36)	(1.62)	0.95
—Fully Diluted	$	**1.61**	0.78	(0.36)	(1.62)	0.94

* Not comparable

(1) Ownership in Husky Oil Ltd. was reduced to below 50% and the investment was deconsolidated.

(2) Includes convertible debentures and warrants.

(3) Calculation includes the effect from conversion of the convertible debentures and warrants.

Worldwide Activities

- PETROCHEMICALS
- PIPELINES
- PETROLEUM AND OTHER BUSINESSES

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Petrochemicals

Novacor Chemicals Ltd. (100%)

Alberta Ethylene Division

Polyethylene Division

Methanol Division

Polysar Limited (100%)

Basic Petrochemicals Division

Polymers Division

Pipelines & Gas Marketing

Alberta Gas Transmission Division (100%)

Foothills Pipe Lines (Yukon) Ltd. (50%)

Trans Québec & Maritimes Pipeline Inc. (50%)

Pan-Alberta Gas Ltd. (50.005%)

Petroleum & Other Businesses

Husky Oil Ltd. (43%)

Novalta Resources Ltd. (100%)

Grove Italia S.p.A. (100%)

Novacorp International Consulting Inc. (100%)

Solicitors

Howard, Mackie, Calgary, Alberta

Paul, Weiss, Rifkind, Wharton & Garrison New York, N.Y.

Auditors

Clarkson Gordon, Calgary, Alberta

Hon. John B. Aird

S. Robert Blair

James H. Butler

Arthur J.E. Child

Ronald B. Coleman

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Senior Partner, Aird & Berlis
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Chairman and Chief Executive Officer
of the Corporation

James H. Butler
President of the Corporation

Arthur J.E. Child
Chairman and Chief Executive Officer
Burns Foods Limited
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(Food Processor)

Ronald B. Coleman
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(Barristers and Solicitors)

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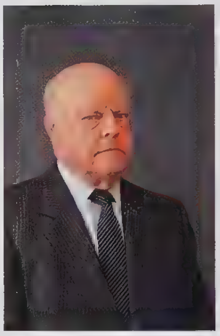
Partner, Milner & Steer
Edmonton, Alberta
(Barristers and Solicitors)

Harley N. Hotchkiss



William A. Howard

Peter L.P. Macdonnell

Fred A. McKinnon
Retired
Calgary, Alberta

Harold P. Milavsky
Chairman and Chief Executive Officer
Trizec Corporation Ltd.
Calgary, Alberta
(Property Management and Development)

R. Alistair Morton
Co-Chairman, Eurotunnel
London, England
(Transportation, Construction)

H.J. Sanders Pearson
Vice Chairman of the Corporation;
Chairman, Century Sales & Service Limited
Edmonton, Alberta
(Industrial Tools and Fasteners Distribution)

Robert L. Pierce
NOVA Executive

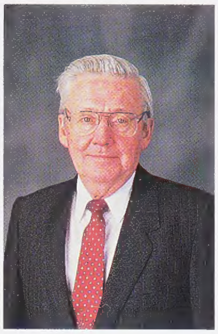
Daryl K. Seaman
Chairman, Bow Valley Industries Ltd.
Calgary, Alberta
(Natural Resource Services, Exploration and Development)

William G. Wilson
Executive Vice President and
Chief Financial Officer of the Corporation

H.J. Sanders Pearson

William H. Comrie

Hon. Willard Z. Estey



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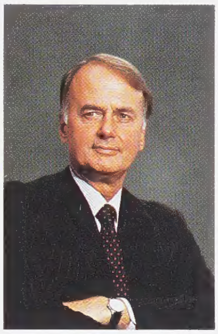
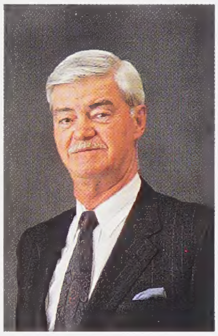


R. Alistair Morton



Robert L. Pierce

Daryl K. Seaman

William G. Wilson

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H.J. Sanders Pearson
Vice Chairman of the Board

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Executive Vice President and Chief Financial Officer

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